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EDITORIAL

As We See It

Our Greatest Danger Seems to Be From Our Friends at Home

Our foreign policy has for some time past been a subject of sharp controversy. Charges of laxity, nay, gross incompetence, in the conduct of our foreign affairs now give the appearance of possibly having a more solid foundation than many, even some of the more critical, had supposed. Russia has cooperated in the Baltic area as well as elsewhere to focus attention upon what is now termed the "cold war." All this has led both the President and his Secretary of State to make major statements about our position in the world, and what we can do and should do (in their judgment) to cure the infirmities from which the world is today so sorely suffering.

In the mind of the Secretary, it is necessary for us to work up greater enthusiasm for "freedom" at home, and a more truly missionary zeal in preaching it and establishing it abroad, but we must at the same time nourish this faith abroad by somehow providing more of the material good things of life to those who cannot or will not provide them for themselves. Another requisite is better and more closely knit "organization" of the "free world," a term regularly employed in Washington to denote all peoples not under the yoke of the Kremlin. At the same time, "the idea of aggression" must be eliminated from our relations with Russia—a postulate which, obviously, can be made consistent with the remainder of the Secretary's statement only by careful definition of the word "aggression."

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Hacking Away at the Free Enterprise System

By BENJAMIN F. FAIRLESS*
President, United Steel Corporation

Deploring efforts to separate "big" from "small" business and to place limits on size of corporations, Mr. Fairless lists current political attacks on business corporations as a deadlier peril to our American economic system than ever experienced before. Accuses politically ambitious office holders of trying to hack to death our free enterprise economy on pretext of saving its soul. Denies "monopoly power" keeps small business from making steel and asserts "there is nothing sinful about size" or nothing unlawful about it.

If you happen to detect a note of feeling in my voice as I say that, it is because of my recent experiences in Washington. From the time it was organized 50 years ago, U. S. Steel has been subjected to almost constant investigation by various agencies of the government and for the past 10 years and more, I myself, have been on the business end of most of these investigations. Gentlemen, I have been through so many Congressional inquisitions that no self-respecting skeleton would hide in my closet on a bet.

Benjamin F. Fairless

So far this year, Senator O'Mahoney has already had me on the griddle once, and Congressman Celler starts dissecting me next week. After that, O'Mahoney wants me back again, it seems; and Representative Macy is proposing that I become the permanent victim of a continuing investigation. I shall never know why.

What with the TNEC report, the voluminous records which we file regularly with various government agencies, the frequent Congressional inquiries we have faced, the proceedings before the Federal Trade Commission, and the evidence we have pre-

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*An address by Mr. Fairless before the Baltimore Association of Commerce, Baltimore, Md., April 21, 1950.

The Economic Situation And Unemployment

By EWAN CLAGUE*
Commissioner of Labor Statistics, U. S. Dept. of Labor

Commissioner Clague, though stating general economic situation is good and is steadily improving, points out present level of unemployment constitutes serious problem. Ascribes this in part to steady increase in number of workers as well as to social and economic maladjustments. Stresses growing complexity of our economy.

Today, when we are well into the spring quarter of 1950, we find a general economic situation which is steadily improving. Coupled with the normal spring upturn in many lines of business activity is a significant revival from the mild recession of 1949. Many recent business indicators point to a continuing upward movement of the economy. In residential housing, 1950 has started off at the highest level in history. The month of March, with 110,000 starts, was the peak month of all time in this country. The quarter as a whole showed an increase over 1949 of about 100,000 starts. Other types of construction have also shown great strength during this year.

Ewan Clague

Statistics on inventories indicate that businessmen are beginning to rebuild them. It was the sharp decline in inventories which in effect constituted the recession last year. The rebuilding of inventories indicates a more hopeful outlook on the part of businessmen. Recent data also indicate that business concerns are raising their estimates as to probable capital investments during 1950.

All these business activities have their effect upon what is perhaps the most important series of all from a social point of view, namely, employment.

March, 1950, was the first month in over a year and a half to show a significant improvement in the employ-

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*A talk by Mr. Clague before the Second General Session of the Nat'l Conference of Social Work, Atlantic City, N. J., April 24, 1950.

PICTURES Taken At the 14th Annual Dinner of the Security Traders Association of New York at the Waldorf-Astoria on April 21, appear in This Issue, Starting on PAGE 25.

The Security I Like Best

A continuous forum in which, each week, a different group of experts in the investment and advisory field from all sections of the country participate and give their reasons for favoring a particular security.

ELIZABETH ELLSWORTH COOK
Publicity Manager, Hemphill, Noyes, Graham, Parsons & Co., New York City.

(Port of New York Authority General and Refunding Bonds)

The Port of New York Authority, General and Refunding Bonds can be recommended as among the soundest obligations available to any buyer. The reasons why, can be stated definitely.

Elizabeth E. Cook

They are the obligations of a brilliantly successful debtor. The Authority was created to do useful work which no existing agency, public or private, could do. To honesty and efficiency, it has added imagination and financial acumen. Its promises to pay always have been good. Today, besides legal protection, they have back of them the earning power of a large and growing enterprise.

These statements can be investigated to the last detail by any interested party. The Authority lives in a glass house.

One Port — Any child with a geography book can see that the cities clustered around New York harbor are one community, accidentally split in two by the Hudson River and the bay.

The harbor, one of the finest in the world, has fostered every kind of maritime operation from colonial days right on. Nothing could stop the amazing development of the metropolitan area. But crossing and recrossing the river by ferry, and the regulations of two states, created a burden of confusion and annoyance which threatened to become a national emergency in World War I.

The trouble was old, but it took the impartiality of patriotism to apply the remedy. In 1917 bills were introduced in the Legislatures of New York and New Jersey which resulted in the appointment of the joint New York-New Jersey Port and Harbor Development Commission.

Indivisible — With Gen. George W. Goethals as consulting engineer, the Commission spent more than three years studying the 650 miles of waterfront of the nation's greatest harbor and its scattered, competing, inefficient facilities. From every pier and ferry the command, "Unite and grow," flashed on the eye of any open mind. The answering idea of "The Port" was the Commission's priceless contribution to the welfare of nearly 12,000,000 persons in the immediate area, as well as to the commerce of the nation, and indeed of the whole world.

Birth — The necessary legal skeleton for the new body politic was provided by a compact signed by the Governors of New York and New Jersey on April 30, 1921 and approved by Congress. This treaty created the Port of New York District and the Port of New York Authority, as a joint instrumentality "with full power and authority to purchase, construct, lease and/or operate any terminal or transportation facility" within the District — which includes roughly the area within a radius of 25 miles from the southern tip of Manhattan. Plainfield, Paterson, Tarrytown and Hempstead are within the District.

A vital provision of the original compact conferred upon the Authority the right to fix tolls, rents, and other charges for its services or the use of its facilities. This power has been ratified by the two states and made part of their laws several times since for the benefit of particular issues of bonds. For example, in 1931 the States convenanted that they would not impair or diminish this power of the Authority while any of the General and Refunding Bonds remain outstanding.

The Authority, in successive resolutions applying to various bond issues, has obligated itself to establish and collect charges which will produce sufficient net revenue at all times to provide for debt service.

Duties—The new Port Authority was charged with the duty of fostering the inter-state commerce of the District by improving and developing its transportation and terminal facilities, and planning for their expansion.

Powers — The Authority was given heavy duties but only limited powers. It could not get money by selling stock like a company. It did not have, and never has had, the power to tax, nor the privilege of pledging the credit of either State. The Authority itself, its properties, and its bonds were made exempt from taxation in either State, and because it is an instrumentality of the States, the interest on its bonds is free from Federal taxation.

It was organized to build. It could issue bonds and pledge its revenues as security.

Credit—But the question was how to get the revenues to pledge, to lure the money, to build the crossings, to produce those revenues. This conundrum presented itself as soon as the Legislatures, in 1924, authorized the Authority to build the first two bridges between Staten Island and New Jersey, estimated to cost $16,706,000 including interest during construction.

A bond issue was indicated, but the investing public knew revenue bonds chiefly as city water bonds, easy enough to understand. It had little or no experience with authorities nor with public construction issues not backed by taxes.

The problem was solved by each State lending the Authority $2,000,000 subordinated in claim to the bonds sold to the public. This made possible the Authority's first public financing — $14,000,000 Series A 4½s 1932-46/36 sold to the bankers at a net interest cost of 4.76% and to the public at par, in March, 1926. The bonds were secured by a first lien on the revenues of the bridges and further protected by the requirement of a reserve fund of 10% of principal to be accumulated before any repayment could be made to the States.

Boost—The Governors and the legislators never had to worry about getting back the money they lent the Authority for its early projects (repaid long ago) —but they did have a thistle to handle in the separate New York and New Jersey commissions which had been quarrelling, delaying, and sometimes building the Holland Tunnel since before the Port Authority was organized. In 1924 both Governors recommended that the Port Authority be asked to finish the job. This was not done but, finally, the Holland Tunnel, begun in 1920, was completed in 1927. In 1931, after it had been in operation almost four years, it was sold to the Authority for $50,000,000, the approximate cost to the States for its construction.

The growth impulse of the Authority, now taken for granted, dates from the acquisition of this first "fixed crossing." At about the same time the Legislatures granted the Authority definite permission to pool its surplus revenues for the benefit of its bond issues collectively. The Holland Tunnel, the darling of the motorists from its opening day, brought substantial earnings into the Authority's treasury. And soon the "surplus" portion of these revenues started building up the new General Reserve Fund.

The General Reserve Fund — The bond issues of the Port of New York Authority, sold to the public for the construction or acquisition of the various facilities, have been secured by a first charge on the earnings of the particular project. Even the very first issue provided also for a 10% reserve fund.

The General Reserve Fund was established in 1931 and strengthened by later provisions. Omitting legal verbiage, the General Reserve Fund has a claim on all the surplus earnings of all the facilities after debt service, which is defined to include interest, sinking fund requirements and serial maturities. All such surplus earnings go into the General Reserve Fund until it equals 10% of the par value of the Authority's outstanding obligations legal for savings banks, and they all are. After the 10% requirement has been met, surplus earnings go into a second reservoir called the Special Reserve Fund, except that such surplus earnings of the Marine Terminal and the Air Terminals go into their particular reserve funds.

At first the General Reserve Fund was pledged as security for the payment of all the Authority's bonds but, in 1932, it was provided that future issues should not be protected by it except by special resolution. In practice each new issue has been given this protection.

Bonds and other debts secured by the General Reserve Fund are called "General Reserve Fund Bonds" and all the Authority's outstanding issues come under that category, including the recent issue of Air Terminal Bonds.

The similarity of names makes it possible to confuse "General Reserve Fund Bonds," i. e., the whole family, with the "General and Refunding Bonds," the elder statesman of the Authority.

The General and Refunding Bonds of the Port of New York Authority are secured:

(1) By a first claim on the revenues of the oldest facilities, i.e.,

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This Week's Forum Participants and Their Selections

The Business Outlook

By THOMAS W. PHELPS

Assistant to Chairman of Board, Socony-Vacuum Oil Co., Inc.

Commenting on Council of Economic Advisers' recent optimistic report, Mr. Phelps warns present prosperity is no guide to future. As demand factors making for good business, he lists war preparation, birthrate increase, increased instalment buying, unrequited exports, and deficit financing. As offsetting important clouds over the business outlook, he cites: (1) people's unwillingness to snap out of post-1932 dream world of inflation; and (2) our loss of faith in competitive enterprise system and substitution of government controls for market incentives.

Business forecasting too often is the last refuge of necromancers who have found it more profitable to tell corporate fortunes than to read tea leaves for individuals. At best those of us who attempt to peer into the business future have to admit that we are strong on autopsy but weak on diagnosis.

Thomas W. Phelps

One of our common failings is that we do not distinguish between observing what conditions are, and calculating what they are likely to be. For example, yesterday morning's newspapers reported that the acting Chairman of the Council of Economic Advisers to the President of the United States says the economic outlook is improving and is expected to continue so for the balance of the year. His optimism on the outlook was said to be based on eight factors, including these:

(1) Record high output of goods and services during the first quarter, just ended.

(2) Corporate profits for the last three months higher than any quarter of 1949.

(3) Consumer buying for the country as a whole at the highest level yet achieved.

Past and Future Performance

To argue from such facts that business will stay good or continue to improve for the rest of the year is a *non-sequitur.* We might as well argue that a flagpole sitter will stay up there forever because he is there now. Once, back in 1929 when there were two chickens in every convertible, we did argue like that, you may recall.

Unfortunately there is more to forecasting weather and business than assuming that whatever is will continue to be. Economic soothsaying is particularly "iffy" business. If we had some ham, we'd have some ham and eggs, if we had some eggs. Substitute the phrase "barring any general recession" for ham, and use the words "assuming maintenance of profit margins" in place of eggs, and you have an economic forecast complete except for the profound conclusion, "We expect 1950 to be a good year."

I hope that you won't misconstrue my remarks on economic forecasting as reflecting on economists. I assume that all of us here tonight are economists. You know the quip "Scratch a Russian and you find a Tartar." With us it is, "Scratch an American and you find an economist." For economists in general, I have the highest regard. Any slurs I may cast in their direction are intended solely for those who disagree with me.

The importance of "ifs" in economic forecasting is illustrated by what happened to a friend of mine in the war. He was stationed with his command near a small village. Looking down on the village was a castle, and in the castle looking down her nose was a duchess. One day my friend received an invitation from the duchess to send one of his men to the castle for dinner. He chose a well-mannered sergeant to represent his unit. The day after the dinner my friend asked the sergeant what kind of an evening he had had. The sergeant replied that it was an "iffy" evening.

"What do you mean by 'iffy'?" my friend demanded.

"Well sir," the sergeant replied, "it was like this. If the soup had been as warm as the wine, and if the wine had been as old as the chicken, and if the duchess had been as good looking as her maid, and if the maid had been as willing as the duchess, it would have been a wonderful evening."

Let's take a look at some of the "ifs" in connection with the general ecomomic outlook. Generally speaking, anything that tends to increase the demand for goods and services *relative to the supply* means more active business to come. Anything that tends to increase supply relative to demand means a falling-off in business.

"If" Factors

If factors which tend to increase demand relative to the supply outweigh factors which tend in the opposite direction, we have the start of a sound foundation for guessing how business will be in the next few months, at least. What are some of those factors?

War is one, perhaps the most spectacular one. In war millions of people who have been producing goods and services suddenly stop doing so and get into uniforms. Thereafter they consume and destroy goods and services, faster in many cases than they formerly produced them. To some extent preparing for war affects

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Road Blocks on Our Economic Highway

By LEWIS H. BROWN*
Chairman of the Board, Johns-Manville Corporation

Leading Industrialist points out, despite its growing population operating in a dynamic economy and accompanied by technical progress, America faces chronic unemployment because of government policy of keeping prices artificially high while draining industry of venture capital. Scores inflationary government spending along with ill-advised foreign adventures "to make jobs at home." Urges government activities be limited to clearing road for private business rather than blocking it at every turn.

It was just a little more than six years ago that I had the privilege of talking to the members of the Sales Executives Club. At that time we were still at war and I discussed "Patterns of the Postwar Future."


Lewis H. Brown

I recall telling you that the great challenge in the postwar future would not be the development of industrial production capacity. Rather the challenge would be the problem of developing new knowledge and skill in the field of selling and distribution. What I said six years ago, holds true today. The sales forces in American business, together with our distribution experts and our advertising and sales promotion executives, face an unprecedented task.

I recall pointing out that even though we created great production capacity and were successful in creating huge consumer purchasing power in the postwar period, it would not necessarily follow that the American people would purchase all the things we produced unless the necessary consumer demand were built up.

I also recall expressing my belief that the success of our sales organizations and every other group in American business would depend largely on economic and political conditions over which businessmen have little or no control. And I emphasized that we would need a new approach if we were to prevent large-scale unemployment.

Today I would like to develop these themes in the light of present conditions. For the people are particularly worried about high prices, the rising spectre of unemployment, and the possibility of the Cold War getting out of control and developing into a shooting war.

At first glance these three things may not appear to be related. Yet they all fall into a closely-knit pattern. They can be traced to the ill-advised but politically opportunistic policies of little men in big government jobs who rob Peter to pay Paul and who would bring about prosperity by going deeper and deeper into debt. And, in fact, they might be tempted to go deeply into the morass of foreign adventure, not for the wholly legitimate reason of national defense, but to artificially make jobs at home. Although their panacea of deficit financing would inevitably lead us to an empty pot at the end of the rainbow, they continue to apply it to a hopped-up patient already so overdosed that he is getting groggy.

Facts About General Economic Trend

Before I tell you of my real concern over the dangers that lie ahead in the period of adjustment which we must eventually face and before I outline to you as vigorously as I can the pitfalls I see in continued and deliberate deficit financing, perhaps it would be well to set the stage with a few facts about the general economic trend.

At present, it appears that the year 1950, and probably several years more, will be dominated by a continuing struggle between two forces.

On the one hand, we have a rapidly growing population operating a dynamic economy, which is stimulated by powerful technological progress. This force makes for the further expansion of the American economy.

On the other hand, the war and postwar years have distorted, inflated and unbalanced our economy. We have by no means completed the adjustment from an abnormal war boom and postwar boom to a period that can be considered reasonably normal. And this force makes for contraction of the American economy.

Let us first briefly review the main factors that make for further expansion.

Outstanding, of course, is the increase in population since 1940. It was predicted and almost universally accepted that the United States would increase by 8,500,000 in the '40s. Actually, we have increased our population by 18,500,000—more than the entire population of Canada. This increase means that there are millions of new people, children, who by their very existence, stimulate hundreds of industries of every description.

The second factor that makes for further expansion began long before the war and received tremendous impetus during the war years. It is the new "frontier" due to the industrialization of the South, the Southwest and Pacific Coast. This has been accompanied by one of the greatest mass movements in history of people to these areas. This continuing migration means more construction and capital investment for the development of these regions.

The third factor is the spectacular rise in family incomes, not merely in dollars, but in real buying power. Moreover, there are from 13 to 15 million more jobs than before the war. Wages have advanced at a greater rate than the cost of living and in many families, there are two, three or more breadwinners.

The fourth factor is the increase in our money supply. A lot of the war savings of the people has been spent. But a very large amount still exists and will continue to be used for buying all sorts of new goods for years to come.

Finally, the backlogs resulting from 10 years of depression, as well as four years of war, have not been fully liquidated in all industries. The biggest unliquidated backlog, of course, is construction.

Now those are the factors that tend to make for **sound** expansion in the years ahead. They can be depended on to keep the economy functioning at a level far above that of prewar years.

Some Real Danger Points

But let us not blind ourselves to some real danger points. Red signals exist. We could have the beginning of a depression almost anytime, even though we operate at a level above prewar. Should a depression come, our Keynesian Government in Washington will, of course, move heaven and earth to forestall it at whatever cost. Their political life depends on maintaining "full" employment.

Now what are the contractive factors which, if not offset by forces of expansion, could bring our economy into a depression of considerable depth?

Here are nine danger signals:

One: The first great wave of postwar plant expansion is subsiding.

Two: Profit margins are falling.

Three: Unemployment is growing.

Four: Millions of people are now deeply in debt.

Five: Surpluses are mounting in almost every important farm crop sector.

Six: Backlogs are disappearing in most of our industries.

Seven: Artificially high prices are causing shrinkages in markets.

Eight: The squeeze continues on many classes of American consumers who have not benefited from increases in income sufficient to meet rising living costs.

Nine: Our foreign markets are shrinking.

Let us look at some of these danger signals a little more closely.

As far as postwar plant-expansion is concerned, the curve turned downward in the first quarter of 1949 and the trend is still downward.

As for profit margins, two out of every three industrial com-

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*An address by Mr. Brown before the Sales Executives Club of New York, New York City, April 25, 1950.

The Profit and Loss Statement

By GEORGE F. SHASKAN, JR.*
Partner, Shaskan & Co., Members N. Y. S. E.

In lecture series Mr. Shaskan explains the corporation's reporting of Profit and Loss, describing the details of Income, Depreciation, the Operating Section and the Non-Operating Section.

Two weeks ago we examined in considerable detail the balance sheet, one of the two basic corporate financial statements. Today we shall study the other important financial report—the Profit and Loss Statement — and next week then go on to see just how these two basic financial reports are used in analyzing securities.


Geo. F. Shaskan, Jr.

The Profit and Loss Statement—sometimes referred to as the Income Statement—as its name suggests—reports the income, expenses, and the profit or loss for a stated period. To the investor, it is the basis for determining: (1) sources of income and nature of expenditures; (2) changes in such income and expenses; and (3) the adequacy of earnings both to ensure the successful operations of the corporation and to provide income for the security holders.

While the Balance Sheet tells us the condition of business at a stated time, the Profit and Loss Statement tells us what has happened—financially—during a certain period, that is from one time to another.

Varied Composition

While Profit and Loss Statements generally provide the same type of information, their composition varies widely not only among companies in different industries but also among companies in the same industry. The investor, therefore, must be prepared to examine each item carefully and, as we shall see, to distinguish between similarly sounding items which may, in fact, mean quite different things, and differently stated items which in fact are the same thing.

There are three principal sections to the Profit and Loss Statement: (1) the operating section which shows the financial figures related to the company's normal operations and which includes operating revenues or sales, operating expenses and operating profit; (2) the non-operating section which includes income and expenses derived from operations not directly related to the operating activities of the company; and (3) the profit or loss. We shall now examine each of these in some detail.

The Operating Section

The operating section reports first the company's operating income. This may be **Gross Sales** of the company which is the total dollar amount at which the products and services produced by the company has been billed to its customers. Instead of Gross Sales, however, it may be **Net Sales**, which is the actual dollar amount which the company has received after one or another allowance. In some cases both the Gross and the Net Sales figure will be shown.

The next item will generally be the cost of such sales, which includes the amount paid by the corporation to its employees and to others for products and services used by the company. Cost of sales may also include selling and administrative expenses and depreciation, depletion and amortization, although these latter expenses are frequently shown separately.

Cost of sales are then deducted from sales which gives us a third principal item which is the **Net Operating Income**, sometimes described as **Operating Profit**. We should note at this point that where such expenses as selling and administrative are not included in Cost of Sales, the Profit and Loss Statement will first show a **Gross Profit** or **Gross Operating Income** figure from which these latter expenses will then be deducted in order to arrive at the Net Operating Profit figure.

This brings us to the next main section of the Profit and Loss Statement — the Non-Operating Section, but before taking up this section it might be well to discuss at somewhat greater lengths some of the items that we have just reviewed. Where a company's income comes from sales of essentially different products, a separate sales figure for each of the main product categories will frequently be shown. Thus, in its Income Statement, the Cities Service Co. shows separate sales figures for crude and refined oils,

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*Transcript of the eighth lecture of a series on "Investment Planning for Women," given under the auspices of Shaskan & Co., at the Hotel Barbizon, New York City.

Mutual Bank Deposits Pass $22 Billion Mark

At the close of March, the assets of the mutual savings banks of the nation passed the $22,000,000,000 mark, according to Henry S. Kingman, President National Association of Mutual Savings Banks, and President Farmers & Mechanics Savings Bank, Minneapolis.

Henry S. Kingman

During March their deposits gained $147,000,000 to reach a new peak of $19,670,000,000 on March 31. For every month since the close of 1948 gains in deposits have exceeded those for the corresponding month of the previous year. The increase in March, as during the entire first quarter, was about one-third greater than that of the corresponding period a year ago. The gains for the full year 1949 had also been about one-third above those for 1948.

Activity was high during both the month and the quarter. The deposit rise reflects the fact that the percentage gain in amounts deposited in regular accounts was twice as great as the percentage gain in amounts withdrawn.

The increase in deposits during March has been placed chiefly in mortgage loans. Mortgage holdings rose $111,000,000 during the month duplicating the record gain of December, 1949, and now constitute 30.8% of the banks' assets. Holdings of U. S. governments rose $48,000,000; cash, $12,000,000, and corporate and municipal securities, $4,000,000 over the first quarter, almost three-fifths of the $503,000,000 gain in assets has been placed in mortgages, $120,000,000 in U. S. governments and $74,000,000 in corporate and municipal securities.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Moderate gains characterized the rate of total industrial output for the country as a whole the past week. Compared with the similar period in 1949, production likewise showed a moderate advance. As for employment, in the period ended April 8, last, the number of claims for unemployment insurance reflected some slight contraction.

Amid an atmosphere of caution, highly favorable first quarter reports of business and industrial concerns now coming to hand should promote greater confidence in the ability of industry to sustain production and employment in the months that lie ahead.

In the steel industry, for example, scheduled steel operations for the current week are set at 100.3% of capacity, or the greatest production record in the industry's history, exceeding the previous high level of a week ago. The current rate is equivalent to 1,912,000 net tons. In contrast, last fall, when the steel strike shut down the nation's mills, operations for the week of Oct. 3 dropped to a low point of 8.2% of capacity, representing a weekly output of only 151,000 tons.

Although steel is pouring from the furnaces in the greatest volume in history, consumer pressure for finished steel is taxing production facilities, and as a consequence, producers are making little progress clearing away the huge order accumulations on their books, says "Steel" magazine on Monday of this week. Deliveries now extend months ahead on virtually all the major products. Supply conditions are tightening steadily. Some consumers, already desperate for light, flat-rolled steel, are paying premium prices to obtain sufficient metal to support expanding manufacturing schedules. High-cost conversion tonnage demand is rising. In some respects current market conditions are reminiscent of those prevailing during the shortage immediately after the war.

Pressure for sheets is so great, states this trade paper, that producers fear they would be swamped with tonnage were they to formally open books now for third quarter.

No price changes of note have been effected in the steel markets since early in the year and none appears in immediate prospect. However, the paper adds, steel costs of many consumers are rising as they turn to use of premium-priced conversion steel to satisfy their requirements.

* * *

Living costs went up slightly last month, mainly because food prices rose, according to the Bureau of Labor Statistics' consumer's price index for March 15. It was 167% of the 1935-39 average. This was 1.5% below a year earlier but 25% above June, 1946, when price controls were first dropped. Food prices went up 0.6% in the month to March 15, their first rise after three straight drops. However, the index reveals, food prices were still 2.8% below March 15, 1949. Smaller increases were reported for most other items in the index.

* * *

Eastern railroads, it was learned late last week, were authorized by the Interstate Commerce Commission to reduce freight rates on certain iron and steel products by 25%, effective May 1. The roads are making the cuts in an effort to regain traffic lost to motor transport firms. The rail carriers told the ICC the truck lines are now carrying more than half the iron and steel shipments in the East whereas the railroads used to haul "virtually all."

* * *

Excise tax slashes totaling close to $250,000,000 yearly came closer to reality with the tentative approval by the House Ways and Means Committee the past week. This brought the total excise levy reductions voted in two days to about $335,000,000. The Committee on Friday, last, decided to reduce or eliminate the imposts on jewelry, handbags, toilet preparations, furs, household refrigerators, photographic apparatus, some sporting goods and musical instruments. At the same time it agreed to retain present taxes on radios, records, luggage, commercial refrigerators, air-conditioning units and matches. The House group voted a 7% levy on deep-freeze units—now tax-exempt.

* * *

Business failures rose to 884 in March, the highest level since May, 1942. Despite this increase, casualties were only 4% more numerous than in March a year ago. They were considerably below the prewar total of 1,332 in March, 1939.

While failures advanced numerically to a postwar high this March, their rate as reflected by "Dun's Failure Index," which projects monthly mortality to an annual basis and adjusts for seasonal fluctuation, dipped to 33 per 10,000 concerns in operation. Although lower than in the previous nine months, this rate was about the same as that in March, 1949, and less than one-half the 1939 rate of 72 per 10,000 businesses.

STEEL OUTPUT SCHEDULED TO SURPASS PREVIOUS WEEK'S ALL-TIME HIGH RECORD

Steel production is knocking all former records into a cocked hat this week according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. Ingot operations are scheduled at 100.3% of rated capacity. If this rate is maintained steel output for the week will be more than 1,912,000 tons. This is more steel than the industry has ever before been able to turn out in a single week—in peace or war. Barring unforeseen trouble, operations are expected to remain very near the 100% mark for the next several weeks.

Conversion deals are snowballing. Some of them now extend as far ahead as August. Only a few weeks ago, states this trade authority, most people thought they would end in the second

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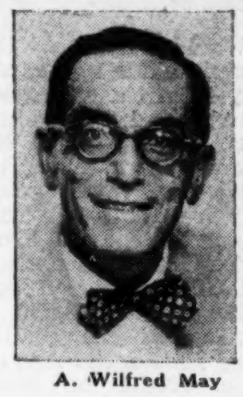
Observations . . .

By A. WILFRED MAY

Just How Respectable the Common Stock?

Analyzing the Short- and Long-Term Market Effects of the New "Prudent Men's" Buying

In our column of last week we traced the historical concepts—legal and lay—of *Prudent Man* behavior. We demonstrated its vagueness and inconsistencies, which we interpreted as a major accentuating force toward *Blue Chip-ism*, gregariousness, and general conventionalism in fiduciaries' investing policies, and as likely all the more to continue under the impending relaxation of trustees' legal investing restrictions in New York and other States. (Effective July 1, next, the New York State statute permits legal trust funds to invest up to 35% in "ineligible" bonds and listed preferred and common stocks.) In this week's column we will appraise *"Prudent Man-isms"* likely quantitative effects on the stock market; and in a subsequent article, the broader economic effects on the nation's capital investment problem.



A. Wilfred May

The exact quantitative impact on the security markets of the imminent relaxation of trustee restriction cannot be exactly blueprinted, particularly in view of the timing factor. There are too many furthering and offsetting elements and imponderables in both the quantitative and psychological categories.

As a spring-board for making estimates, we will use the $13-14 billion figure comprising the total of all trust funds in New York State. Of this total about $3½ billion is now in trusts which are restricted to "eligible" bonds (i.e., those on the legal list) and to shares of Savings and Loan Associations. Applying the 35% permissive proportion to this "eligible" pool, gives about $1¼ billion of potential stock market purchases from this virginal source.

First let us cite the offsets likely to reduce, and subsequently the factors likely to swell, this $1¼ billion figure.

Limiting Factors

Not all legal-type trust funds' managers will have a free hand, despite the new permissive statute, because of the definite confinement to legal bonds which is specified by some testators.

Also it must be remembered that many of the so-called legal trusts included in the $3-4 billion total, already hold ineligible bonds and preferred and common stocks via the *retention* privilege which permits the hold-over of such securities previously acquired. Questioning of trust officers reveals that they will not add the 35% on top of these presently-held ineligibles, but will regard the 35% proportion as a maximum ceiling on all the non-eligibles combined.

If retained stocks are sold, they cannot be replaced to the extent of making the entire equity holdings exceed the 35% limit.

The increasing practice of testators' insertion of *encroachment* provisions in wills also will tend to make trustees hold back from the 35% limit. These provisions, entitling beneficiaries to make withdrawals in the case of sickness and other emergencies, will stimulate the safeguarding of liquidity through bondholding.

A final offset to the popular estimates of the available total investible in common stocks is the little-realized fact that the new statute comprises an **overall** law, permitting entry into the categories of ineligible bonds and preferred stocks as well as equities.

These two factors make it appropriate to subtract several hundred millions from the above-stated gross estimate of $1¼ billion of equity-potential.

Traditional Ingrained Trustee-Conservatism

A restricting element of a **qualitative** nature is the traditional ingrained "glandular" instinct of the fiduciary to cling to fixed-

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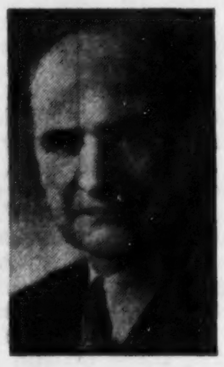
Fundamental Factors Pertaining to Electric Utilities

By P. P. STATHAS*

Senior Partner, Duff and Phelps, Chicago, Ill.

Utility specialist reviews progress of electric power industry during last two decades and concludes, despite recent rapid development, it is still a growth industry. Holds continued prosperity of the industry is virtually assured for a good many years to come, since population is increasing and new uses for electricity are being developed. Looks for continued sympathetic commission regulation of utilities.

As long as 10 years ago bond investors accorded electric utilities perhaps the highest credit rating as compared with other segments of industry in the United States. Good quality utility bonds commanded as low, or lower, yields than any other segment of the corporate bond market.



P. P. Stathas

This was attributable to a number of factors, including the trend in government bond interest rates as brought about by the fiscal policy of the government, but perhaps the principal reason was the outstanding earnings record which the electric utility industry achieved in the depression of the early 1930s, and particularly the relative stability of the industry's earnings. However, 10 years ago certain serious and fundamental questions regarding the industry were still unanswered in the minds of investors and as the inflationary trends could then be seen on the horizon, the most important question was, "What would happen to this regulated fixed price business during the period of inflation?" The effect of the impending war on the general economy was also another serious question mark in the minds of the investors.

The record contained one precedent, namely, the experience of utilities during and immediately after World War I. At that time the electric industry was still in its infancy from the standpoint of both growth and engineering achievements. During World War I and for some years thereafter, power shortages and interruptions in service were almost a rule rather than the exception. Properties deteriorated considerably, earnings fell off sharply and were restored only over a period of time by subsequent growth, but particularly by substantial rate increases. The credit of many companies fell to such a low point that 6% and 7% bonds of relative short maturities could be sold only at substantial underwriting discounts. I remember the time when I was a cub in the utility industry in the early 1920s when it was considered an achievement by the management of the operating utility company to be able to sell a 5% bond. Looking back, I wish those days were here again so that you gentlemen in the utility bond investment field could again obtain a decent interest rate on your investment. In short, at that time the only available answer to the inflationary question was so unfavorable as to make us wonder how the industry attained its subsequent high credit standing with investors. Of course, many things have happened in the interim, including the elimination of abuses brought about by the operation of the Public Utility Holding Company Act and by enlightened management policies, and the effect of the government's fiscal policies on investment rates generally was also a factor.

*An address by Mr. Stathas before the Savings Banks' Association of Connecticut, New Haven, Conn., April 19, 1950.

World War II and the Power Industry

And yet, 10 years ago the same clouds of inflation and war lay immediately ahead of the industry and we actually went into World War II in December, 1941. World War II brought with it a new factor not previously visualized, namely, rigid price controls applied throughout the economy. These rigid price controls were of course very helpful to the utility industry but it might be argued that the war period itself constituted no test of a fixed-price industry, such as the utilities, on account of this factor. It seems clear to us, however, that price controls during a war period can now be taken as a national policy and are likely to be invoked again under the same conditions. In periods of war also the electric industry can work its facilities around the clock because of the necessary 3-shift operation of industry in general.

We come now to the end of the war in 1945 and the lifting of price controls. Inflation got under way in 1946 and has been forging ahead since that time. The cost of living index in October, 1945, for example, was 128.9 and subsequently reached a peak of 173.6 in October, 1948, with a slight subsequent drop to the present time. Here was the sharpest inflation in the shortest period of time that the country has ever witnessed, but the electric utility industry weathered it with no decrease, and actually with an increase in its earnings. The elimination of the excess profits tax in 1946 was, of course, an important factor, but growth brought about by greatly expanding markets for utility service as well as the building of more efficient generating capacity were more important contributors to the excellent operating results achieved by the utility industry during this inflationary era. The operating record of the industry shows that the question previously propounded, namely, "What would happen to this fixed-price regulated business during the period of inflation?" has been answered favorably from the standpoint of the public utility security investors.

While many people felt that the utility industry was going to be squeezed by the inflationary trend on account of having to operate at fixed prices for its products and services, this has not been substantiated in the light of the industry's actual excellent performance.

Tremendous Construction Program

During the period under review the electric utility industry, in order to meet the greatly expanded demand for its services, had to embark on a tremendous construction program. The capital expenditures were as follows:

Year—	Amount
1946	$850,000,000
1947	1,600,000,000
1948	2,300,000,000
1949	2,050,000,000
Total	$6,800,000,000

To support this additional investment it was found necessary in a number of cases to apply for rate increases, and in all, something like 150 petitions for electric rate increases were filed throughout this country. In practically all cases the rate increase requested was rather modest, on the order of around 5% to 7% and very few amounted to as much as 10%. In that connection it must be remembered that rate adjustments in the electric industry throughout the preceding 15 years had been entirely one way, namely, downward. In connection with the rate increases requested during the past couple of years, the regulatory commissions have been very sympathetic and it is noteworthy that in most instances fairly prompt relief was granted, and that recognition of investors' rights to protection was evidenced thereby. Rate increases occurred in localities holding almost every shade of political philosophy and the cases where rate relief was denied were very negligible. The recent decision of the Michigan Public Service Commission in the Consumers Power Co. case is concrete evidence of a regulatory commission's sympathetic attitude. It is significant in that case that the Commission allowed a rate base predicated on fair value rather than solely on the basis of original cost, and this resulted in a rate base nearly $90 million higher than depreciated original cost alone, plus working capital. Even the New York Public Service Commission which, in our opinion, had been following a punitive type of regulatory policy, has come to a more sensible type of regulation, judging from its recent decisions.

Rate Increases Moderate

These rate increases have proven that regulation is a two-way street. In the over-all picture it is likewise significant, in our judgment, that a very substantial segment of the electric utility industry did not have to apply for rate relief. It did not need rate increases because the level of the earnings was still satisfactory and cost increases could be absorbed without rate increases. This attests to the inherent resiliency of most companies in being able to absorb cost increases by way of substantial revenue increases and enjoy profitable operations in that manner. In any event, the modest rate increases of 5% to 7% obtained are insignificant in relationship to the tremendous increase in the cost of doing business by industry in general. By way of contrast, you could well imagine what would have happened even to our strongest industrial corporations, such as General Motors or du Pont, if they had to sell their products today at prices only 5% to 7% above the 1939 level.

In relationship to the modest rate increases required by the electric utility companies, the manufactured gas and telephone segments of the utility industry had to resort to much higher rates in order to stay out of the red. The long-term fundamentals of the manufactured gas and telephone industries are not as favorable, in our opinion, but time does not permit going into detail.

In terms of 1945 year-end figures, the gross property and plant account of the class A and B private utilities in the United States showed an increase of 40% by the end of 1949 and the corresponding increase in net plant, after deducting the applicable depreciation reserves, amounted to 51%. These companies were able to finance this substantial construction program without unbalancing their capital structure. Of the total construction requirements, 38.8% were met through long-term debt, 8.6% through preferred stock issues, 24.1% through the sale of common stock and retained earnings, and the balance of 28.8% was met through depreciation cash. The capitalization ratios of these companies, as a group, at the end of 1945 and at the end of 1949, respectively, compare as follows:

(000's Omitted)

	Dec. 31, 1945 Amount	Dec. 31, 1945 % of Total	Dec. 31, 1949 Amount	Dec. 31, 1949 % of Total
Long-term debt	$6,141,000	46.5	$8,500,000	49.0
Preferred stock	2,071,000	15.7	2,500,000	14.4
Common stock equity	4,996,000	37.8	6,400,000	36.6
	$13,208,000	100.0	$17,400,000	100.0

It will be seen that while long-term debt increased from 46.5% to 49% between the end of 1945 and the end of 1949, such an increase amounted to less than 5½% and the proportion of senior capital has still been kept well within reasonable limits.

The electric utility industry is still confronted with sizable construction budgets for 1950 and the next two years. According to present estimates, the electric industry capital expenditures will amount to $1,830,000,000 in 1950, $1,620,000,000 in 1951 and about $1,630,000,000 in 1952, or a total outlay of $5,080,000,000 for the three-year period. In the event of a prolonged industrial recession, these budgeted expenditures could well be curtailed but a substantial portion will likely have to be met in any event, in order to provide generating capacity for reserve purposes and for future growth. Incidentally, the reserve generating capacity increased to about 11½% at the end of 1949, as compared with less than 6% at the end of 1948. During the past three years the private utilities for the country as a whole, increased their generating capacity a matter of some 10 million kilowatts or close to 25%, and the additional capacity projected is some 5,200,000 kilowatts in 1950, 4,265,000 kilowatts in 1951 and 2,590,000 kilowatts in 1952. This additional capacity will not only increase the reserve to a very safe level but will also enable the companies to shut down the existing inefficient generating units as well as to take care of the growing requirements of the industry in good shape.

No Difficulty in New Financing

In our judgment, the industry should have no difficulty in financing these additional facilities and still keep its capital structure well in balance. The estimated sources of capital would be approximately as follows:

	1950	1951	1952
Debt	$732,000,000	$648,000,000	$652,000,000
Preferred stock	183,000,000	162,000,000	163,000,000
Common stock	366,000,000	324,000,000	326,000,000
Depreciation cash and retained earnings	549,000,000	486,000,000	489,000,000
Total	$1,830,000,000	$1,620,000,000	$1,630,000,000

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From Washington Ahead of the News

By CARLISLE BARGERON

This correspondent has occasionally pointed out that the steady encroachment of the Federal Government with respect to the affairs of people is taking away their freedom, notwithstanding that it is not apparent to the man who feels big and independent because he can still shoot off his mouth in a saloon. Parenthetically, it is not infrequent at all these days to hear groups figuratively patting themselves on the back after listening to a radio debate or a "Meet the Press Program" on which a government official is razzed by a few nitwit newspapermen, and saying "this could happen in no other country in the world."

Carlisle Bargeron

The fact remains, however, that our freedom is gradually slipping away and here is one concrete example of it:

Several months ago a New England engineering firm made a survey of New England's power needs and possibilities for a business group. A few weeks ago a group in Washington that is fighting a proposed Federal project thought it would be a good thing to engage this engineering firm for a survey it wanted made and which it believed would bolster its case against the Federal project. When the engineering firm was first contacted it readily agreed to undertake the survey, saying that surveys of the kind were its business and it was always glad to get new business. A few days later the firm began to cool off and finally declined to make the study on the grounds that it did a lot of work for the Federal Government and didn't want to incur its enmity by making a study in opposition to one of its projects.

Now it has been a long and sensible policy that one firm doing business with another firm would not do anything to incur that firm's dislike. But when firm after firm refuses to undertake work critical of the Federal Government for fear of losing government business then we can see just how far the area of criticism against the government has been limited because the business firms of any size which do not sell to the Federal Government these days are far and few between. Take the automobile industry, the locomotive manufacturers, steel, a business like Allis Chalmers, Westinghouse—they are all vying for government business and government business is a tremendous proportion of their output. Take the construction industry, almost wholly beholden to the Federal Government; real estate, most anything requiring unusual financing, the cement industry, the railroads, and so on without end. Is there any wonder that our business leaders have lost the leadership which they used to occupy in public affairs? Generally speaking they are not in a position to open their mouths. The private utility industry under the increasing pressure of government usurpation is becoming more and more timid for fear the government will move in faster. Recently I talked with a group of Florida businessmen who heartily despise Senator Claude Pepper and the New Deal but they were through with fighting them because it was becoming too costly. Florida was being denied Federal projects. My information is that Pepper stands to take a beating in the primary next Tuesday but it will not be because of any activity on the part of these men—this they assured me at the time of our talk.

An exception to the rule seems to be Charles E. Wilson, President of General Electric. GE does business with the government, but Mr. Wilson is telling his fellow businessmen that they must reassert the leadership which they had in public affairs. He seems not to have been muzzled. It may be because he served in Washington and knows first hand what is going on and is willing to take the risk. But I can think of few other business leaders with this courage.

And getting down to the little man, the next time Mr. Truman follows Roosevelt's trick and asks on the radio "Now what freedom have you been denied," a fellow like Joe Dickmon, a coal miner, should speak up.

Dickmon had the temerity to say that John L. Lewis was a dictator. He was expelled from the union and notwithstanding that he has long since recanted and admitted he was a fool, he is still not permitted to work.

Maybe the faceless Chrysler workers held out on strike these many weeks, not for a pay raise or better working conditions but because of some sort of intrigue or machinations on the part of their leaders, would have something to say. I think I am fairly well informed on the mass psychology of strikers and I haven't the slightest doubt in the world that these fellows have long since wanted to return to work. It would be surprising, indeed, how many of them would return to work if Chrysler were to decide to reopen its plants and the workers were assured protection. I am not in a position to say why Chrysler hasn't done this. But it is certainly within the realm of conjecture that its management feels they might incur the disfavor of the Administration by doing so. Certainly it could not expect the Administration's encouragement and it more likely would find the Administration cooperating with the union such as Henry Wallace's Commerce Department did in the case of the General Motors strike shortly after the war.

The man who can't see the growing intimidation which his government is wielding is pretty blind, indeed, the pretty phrases about freedom which the Bureaucrats use notwithstanding.

Joins J. G. Kinnard

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—John R. Wergas has become connected with John G. Kinnard & Co., 71 Baker Arcade.

With Dayton & Gernon

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, MINN.—Otto D. Christenson has become associated with Dayton & Gernon, Pioneer Building.

How Safe Are Mortgages?

By AUGUST IHLEFELD*
President, Savings Banks Trust Company

Calling attention to rapid expansion of mortgage debts since end of war, together with increased holdings of real estate mortgages by savings banks and other institutions, Mr. Ihlefeld ascribes this development to current building boom. Holds rise in mortgage indebtedness is not excessive in view of tripling of national income since 1939, and points out means for maintaining stability of mortgage investments in future. Contrasts elements of weakness and of strength in present real estate mortgage situation, and sees no ground for serious slump in realty values.

The outstanding development in mutual savings banking in the postwar period has been the very rapid expansion of mortgage portfolios.

August Ihlefeld

At the end of 1945, the savings banks of the country held \$4.2 billion of mortgages. By the end of last year, they held \$6.5 billion, an increase of well over 50% within only four years.

In the past six months, moreover, mortgage holdings have been increasing at the rate of almost \$100 million monthly. In view of the large outstanding commitments to acquire additional mortgages on dwellings under construction or to be built, it is a reasonable projection to say that mutual savings banks will hold more than \$8 billion of mortgages by the end of 1951. This would constitute almost 40% of estimated deposits at that time, as compared with the 28% of deposits invested in mortgages at the end of 1945.

Institutional investors have incurred considerable losses on mortgage investments in the past. The bulk of such losses has occurred in periods of unfavorable economic conditions following building booms. The losses have arisen from the inability of many mortgagors to meet payments due on their debts during depression periods, leading to numerous foreclosures, sharp declines in values and low prices realized on the liquidation of real estate acquired by the lenders.

In the very severe depression of the 1930's, losses incurred on mortgages were heavy. In earlier depressions like those of 1920-21 and the years following the panics of 1907 and 1893, losses were moderate.

In view of the unprecedented rapidity with which savings banks and other institutions are currently expanding mortgage portfolios, it is inevitable that questions shall be raised about the present and prospective quality of mortgage investments. Lending institutions, through a realistic appraisal of the elements of strength and weakness in the mortgage structure, can shape their mortgage policies in ways to limit risks incurred and minimize future losses.

An Economic Appraisal of the Mortgage Structure

In every building boom, the quality of the mortgage structure as a whole is affected adversely. This results from the fact that the volume of mortgage debt is increased substantially, while eventual overproduction of dwellings leads to a decline of realty values and consequent impairment of many loans, particularly those of relatively poorer quality. Losses tend to be heaviest among loans made in the last phases of the boom, for they are affected by the fall in values before the mortgagors have had much opportunity to amortize their obligations to a material degree.

In the current great building boom, the increase in mortgage debt has assumed unprecedented proportions. Urban mortgage debt has been increased from \$31 billion at the end of 1945 to over \$60 billion today, a doubling in less than five years. By the end of 1951, at the present rate of building, mortgages on residential and commercial properties in urban communities should exceed \$70 billion, a total two and one-thirds as large as that of 1945.

Would a mortgage debt of this record magnitude be excessive for the American economy as it is now constituted?

In relation to the ability of the American people to carry mortgage debt, the increase would not be excessive. In 1939, urban mortgage debt of \$30 billion was 43% of disposable personal incomes of \$70 billion. Today, the urban mortgage debt of \$60 billion is only 31% of disposable personal income of \$192 billion. If we assume about the same level of national income at the end of 1951, urban mortgage debt of \$70 billion by that time would be only 37% of disposable income.

In other words, the rise in urban mortgage indebtedness has lagged well behind the near tripling of national income since 1939.

Ability of mortgagors to service their debts may depend not only on their incomes, but also on their liquid resources. The liquid savings of the American people have been tripled since 1939, whereas the mortgage debt has approximately doubled. By this test also, we must conclude that for the nation as a whole the actual burden of mortgage debt is really less than it was in 1939.

Severity of Future Depressions

The fact that the mortgage debt burden is relatively moderate today does not mean that lenders can be complacent about the outlook. A similar analysis would have shown that the mortgage debt burden was relatively moderate in 1929; nevertheless, the catastrophic contraction of national income by almost 50% between 1929 and 1933 worked havoc among mortgage investments during that period, as we know.

Are there reasons for confidence that a similar severe contraction in national income will not recur to produce new heavy

Continued on page 45

*An address by Mr. Ihlefeld before the Savings Banks Officers Forum, Group IV New York City April 18, 1950.

Point IV—Not A Program, But A Challenge

By PHILIP CORTNEY*
President, Coty, Inc.

Stressing need of full confidence in international investment, Mr. Cortney contends, in developing areas for world recovery, only private investors can do the job. Lays down as essential principles for U. S. investment abroad: (1) creation and maintenance of favorable conditions by countries seeking outside capital; and (2) adherence by foreign countries through treaty to code of fair treatment for foreign investments.

An ample flow of capital from highly industrialized and saving producing countries to less developed areas is of vital importance to world recovery. Inter-governmental lending cannot be more than a temporary expedient and cannot cope adequately with the complexity and multiplicity of change and development in the economic world of today. Only private capital and private investors can do the job. The American economic system is the most productive and the freest in the world because it is based on the foundation stones of millions of educated, responsible, self-reliant individuals. Private international investments by these same individuals on a scale sufficient to meet present day needs can be obtained only in a climate of confidence. Those who speak about investments should never forget that the private investor is free to invest or not as he pleases. The real philosophy for encouraging investments, whether at home or abroad, can be epitomized by the French saying: "On n'attrape pas les mouches avec du vinaigre." What the world needs most is the restoration and the maintenance of **"full confidence."** Undoubtedly the greatest enemy of international investments is political insecurity, whether the threat be war or sudden changes in regime. But there are other formidable obstacles. We feel certain that there is probably no greater impediment today to the renewal of international capital movements, and no greater barrier to economic development, than the prevalence of exchange controls. I am afraid the governments do not always realize the serious harm done by exchange and import controls. Let us hope that the governments will soon take the firm resolution of renouncing a policy of expedients and devote all their best talents and energies toward the restoration of free convertibility of currencies. There is no more urgent task if we wish to promote welfare and economic development under freedom.

Philip Cortney

Another obstacle to private foreign investments which, be it said in passing, have to compete with opportunities offered at home, is the lack of what has been properly called a favorable climate to attract investments. In his comments on the President's 4th Point, Secretary Acheson said: "There is also in many places a failure to understand that unless the conditions are created by which investors may fairly put their money into that country, then there is a great impediment to development." What specifically are these conditions which constitute an insurmountable obstacle to private investments? First and foremost, there is exchange control and inconvertibility of currencies, which make all other wrong policies possible. There are policies of expropriation and nationalization. There is the mass of laws and regulations discriminating against, and thereby discouraging the foreign investor. There are also inflationary financial practices, chronic unbalanced budgets, which create a tendency for the demand for foreign exchange to outrun the available supply, or, in other words, which create a tendency of a country to live beyond its means. Therefore, there are two principles which the U. S. Council of the International Chamber of Commerce cannot emphasize strongly enough. One is that the responsibility for creating and maintaining favorable conditions for private foreign investment should rest primarily on foreign countries seeking outside capital. The other is that any sharing of this responsibility by the U. S. Government can be justified, if at all, only in the case of foreign countries which first subscribe to a code of fair treatment for foreign investments.

Success or Failure of Point IV

What is currently termed Point IV is for the time being not a program but a challenge. Its success or failure will depend on the response it will receive not only from the United States but from all the other countries, and particularly from those countries which are anxious to receive capital and technical assistance from abroad.

May I revert for one moment to the issue of confidence? I said that nothing is more important than to restore and maintain "full confidence." Except for threats of war, the maintenance of confidence is in the hands of governments. A famous Finance Minister of France, Baron Louis, said: "Faites-moi de la bonne politique et je vous ferai de bonnes finances." If we have full confidence we can also have a high level of productive employment and a free society. If governments cannot secure the confident and free cooperation of individuals, then our society is bound to drift into authoritarian forms of governments and slavery. This question of restoration of confidence seems to me so important that I wish to take a few more minutes to illustrate exactly what I mean. It is often repeated that when a country is suffering from the modern and fashionable malady called "the dollar shortage," a socialistic or non-socialistic government has to face the same problems and has to provide the same unpleasant remedies. I submit that this constitutes a sophistry and a fallacious way of reasoning. In the first place, this assertion omits mentioning to what extent the dollar shortage is due to the policies of the socialistic government. Yet it is true that the non-socialistic government may encounter many of the difficulties which a socialistic government has to face when it suffers from a so-called "dollar shortage." However, the response of a non-socialistic government to this kind of problem would be different, and it is this difference in response which constitutes the essence of confidence. Human nature being what it is, no one is willing to do his best (except in time of war) without some kind of incentive or reward. No one is willing to save instead of spend unless he knows that his hard work or momentary deprivation will receive its compensation. If an individual helps a socialistic government the only hope he is given as a prize for his efforts is the prospect of expropriation and nationalization. Even in a climate favorable to individualistic enterprise created by a non-socialistic government, the difficulties of the task may be the same, but the individual knows that if the common enterprise is successful he can look forward to a free and abundant life. I have therefore no hesitation to say that the restoration of full confidence is a paramount task of governments, if we are to improve constantly the standard of living of all people, **and at the same time maintain a free society.**

*Part of an address by Mr. Cortney, made on behalf of the U. S. Council of the International Chamber of Commerce at Dinner in honor of His Excellency Gabriel Gonzales Videla, President of Chile, New York City, April 24, 1950.

NSTA Notes

DALLAS BOND CLUB

The annual Field Day of the Dallas Bond Club this year will be held at the Dallas Country Club on Memorial Day, May 30. Featured will be a golf tournament, tennis matches and swimming, weather permitting. A buffet luncheon will be served in the afternoon, after which a special event will be held.

John B. Cornell, Jr.

The Committee consists of:

John B. Cornell, Jr., Dallas Rupe & Son, General Chairman.

Rogers Ray, Rauscher, Pierce & Co., Hotel Accommodations.

Merrill Hartman, Merrill Lynch, Pierce, Fenner & Beane, Special Event.

Winton Jackson, First Southwest Co., Golf Tournament.

Nelson Waggener, Walker, Austin & Waggener, Country Club Activities.

Orville Allen, Lynch, Allen & Co., General Outdoor Sports, Swimming and Tennis.

Herbert Jones, Dallas Union Trust Co., Publicity.

Harry McConnell, Central Investment Co. of Texas, Ticket Reservations.

Golf starts at 9:00 a.m. Buffet Luncheon, 2:00 p. m. Cost $7 for golfers, $5 for non-golfers.

SECURITY TRADERS' ASSOCIATION OF NEW YORK

The Security Traders' Association of New York, Inc. held its 14th Annual Dinner, Friday Night, April 21, at The Waldorf-Astoria.

A capacity crowd of 1,500 attended. The dais was represented by members of U. S. Congress, U. S. Securities & Exchange Commission, State of N. Y. Attorney-General's Office, National Association of Securities Dealers, National Security Traders' Association and local organizations, and Members of the Press.

Charles O'Brien Murphy, of Merrill Lynch, Pierce, Fenner & Beane, was Chairman of the Arrangements Committee, and was ably assisted by Nathan A. Krumholz of Siegel & Co., as Vice-Chairman; John M. Mayer of Merrill Lynch, Pierce, Fenner & Beane, President of STANY, presided.

Pictures taken at the dinner appear elsewhere in today's issue.

AD LIBBING

John L. Canavan, Rauscher, Pierce & Co., Dallas, Texas, is a Vice-Chairman of the NSTA Advertising Committee.

John L. Canavan

Jack needs very little introduction to our national membership. He has served on the National Executive Committee and many of us will always remember his activities during the Dallas Conveniton in 1948. May I recall the "Chuck Wagon Party"? Jack's participation was outstanding and Dallas will be recorded as the leading convention city to date.

When forming the Committee, Jack replied, "I will be happy to assist you in any way and will be glad to serve as Vice-Chairman."

May we thank you Jack and let's all meet again in September at Virginia Beach, Va.

HAROLD B. SMITH, Chairman
NSTA Advertising Committee
Pershing & Co.
120 Broadway, New York City.

K. I. M.—Corporate ads pay dividends.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Bank Stocks which qualify for investment by Massachusetts savings banks under a bill signed April 24 by the Governor of that State—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Building — Analysis of the industry—William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

Chartists Viewpoint — Analysis of the market—Wm. M. Rosenbaum & Co., 285 Madison Avenue, New York 17, N. Y.

Equities at Discount from 1946 Peak—List of stocks selling below 1946 top—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Fire and Casualty Insurance Co. Earnings — Annual comparison — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Fresh Look at the Railroads—Analysis—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

"How to Reduce Your Income Tax by Converting A Short Term Profit into a long Term Capital Gain" and **"How You Can Buy Protection** for your stock market profits during a doubtful period in an uptrend" (also included is a copy of current market analysis report indicating relative strength measurement ratings on 460 stocks and 42 industry groups)—Copies on request on writers letterhead—Report C-103, Mansfield Mills Company, Larchmont, N. Y.

Leading Banks & Trust Companies of New York—Comparative figures as of March 31, 1950—New

Continued on page 12

The Public's Attitude Toward Business and Why

By HERMAN W. STEINKRAUS*
President, Chamber of Commerce of the United States
President, Bridgeport Brass Co.

Industrial leader asserts it is business' responsibility to develop well-informed public opinion on jobs and job-seeking. Cites cost of $6 to $8 billion annually to provide new jobs for growing population, and maintains industry needs support of government as well as people for securing needed venture capital.

The American people are perhaps the best-informed people in the world. When we see our daily newspapers, of 50 to 100 and even more pages, in contrast to the newspapers of other countries — when we remember that there are more than 88 million radio sets in the homes of our people (more than in all the rest of the world combined) — when we learn that four million new television sets are being installed this very year—and added to that the fact that we have some 25 to 30 million automobiles driving all over these United States, it is easy for us to understand why the American people are better informed than perhaps any other people in the world.

H. W. Steinkraus

Information Uneven

But when we think a little more about this subject, we realize that the people know a great deal about some matters and very little about others. They know a great deal about baseball, for instance, movies and movie-stars, the latest dance-tunes, radio personalities, and the day-to-day scandals. But very few of them seem to understand such things as the underlying philosophy of government which has brought us so far along the road to freedom in this country.

So, too, our people seem to understand very little about how our economic system functions and what "free enterprise" and other similar expressions really mean.

The average adult American knows a great deal about the products turned out by different factories, mainly the large ones such as automobiles, refrigerators, cigarettes and a host of other nationally advertised products. But he does not know so much about the medium-sized and smaller concerns which are also a very important part of our economy. The average American is more likely to think of American industry as consisting of very large corporations which are the leaders in their respective fields of manufacture, and he identifies them with specific products.

Let me mention another area in which our people are quite well informed about business. That is in regard to the communities in which they live. Most citizens know a great deal about the kind of neighbors they have, about the kind of people that live in their various towns. They know about each company in a given locality—how good are the working conditions in the plants, the attitude of management toward labor and toward the community as a whole. These are very important things and deserve the most careful attention of intelligent management because they have a strong influence upon the success of any enterprise.

*From an address by Mr. Steinkraus before Economic Club of New York, New York City, April 19, 1950.

But I wish to speak to you for a few minutes about the function of business and industry which is the most important of all to our citizens but about which the vast majority have rarely thought, and which is being threatened today in a way which may hurt all our people if not guarded against. I refer to this most important function, which only business and industry can perform in a free country, and that is the job-making function.

Right now in these United States there are 63 million jobholders, some self-employed but most of them working for someone else. About three out of four have jobs working for others at wages or salary. These millions of workers go to their jobs in buildings and plants and use equipment and tools furnished them by others with which to do their jobs and earn their daily pay. It is of great importance to them and to the country as a whole that these workers have steady jobs and steady income.

The Growing Unemployed

In recent years jobs have been so plentiful and help so scarce that little attention has been given by the workers to the protection of their own jobs. War and postwar conditions were such that work of almost every kind was plentiful. Recently, however, this situation has begun to change, and we hear talk about four million unemployed. What about jobs for them, and what about the future trend in employment? These matters may well be given the most serious attention by all of us, for the profitable employment of all our people is today recognized as the crucial measuring stick of the strength of our economy.

In other countries, where the unemployment problem was not satisfactorily solved by the people themselves, their governments stepped in. And when government promises to create jobs, then government must also have the power over jobs and over job-making agencies, namely over business and industry. The Germany of Hitler's time and Mussolini's Italy are examples of that situation. More recently England has had a similar experience.

Government and Unemployment

World history shows that it has not been unusual, where the only way by which governments were able to provide full employment was by taking over complete control of the lives of their citizens, or by getting into war, for them to resort to both.

Now let us analyze the problem of job-making here in America for a few moments. We are a growing country. The census now being taken will probably show a population of around 150 million people, and we are growing bigger every single day. The millions of "war-babies" born in recent years have given great impetus to our growth. The demand for more schools and for all the other things needed by children is being given constant study.

But what about a little later? What about the time when these youngsters have finished school and want to go out into the world and find a good job? Who is looking out for that?

The best estimates are that, deducting from the total number of high-school and college graduates the number of those who do not plan to go to work, and deducting also the number of those grown old or who will retire in any one year from their jobs, we arrive at the number of young people who do want jobs. That is estimated officially to amount to between 600,000 and 800,000 per year. Mark this figure: A normal influx into the labor market of from 600,000 to 800,000 newcomers wanting jobs each and every year.

Growing Economy Required

That requires a growing economy to provide such jobs. An economy standing still or going backwards cannot possibly handle it. But if business and industry do not provide these jobs, unemployment increases and the government must face up to the most difficult problem of all.

Many a company may be going downhill while others are growing. So the net of all must be a growth of about 1 to 1½% per year in new employment merely to take care of our normal growth. Exceptional conditions, of course, arise in some years, such as has happened this year, when many GIs are finishing their schooling and several hundred thousand additional job-seekers will be looking for work this June.

Jobs Not From Bushes

Jobs don't grow on bushes. They have to be developed by expanding business and industrial facilities. Expanding sales of existing products and the development of new products through research and invention are the normal ways with which we are thoroughly familiar. But these things cost money, lots of it, and that money has got to come from somewhere. It can come from profits made by any company which is profitably operated and which can, therefore, expand. But that way is closed to the company which is temporarily unprofitable.

It can come from new financing through equity capital, but this depends upon the conditions of the stock market and many other factors. Or it can come by means of borrowings from banks and insurance companies or others with a program for later repayment.

You gentlemen need not be told these things. I mention them only as a tie-in, for as you very well know, the general public does not know these things about business. If the people generally were aware of them, the public opinion polls would demonstrate their reactions to be far different from what they have been.

Getting back to this question of jobs, and of new jobs to be created: How much money does it take to create a new average job? Of course, with the march of science, invention and improved technology, the number of dollars necessary to create a new job has grown and grown and grown. The days of simple hand-tools have largely passed. Modern places of work are equipped with highly efficient machinery. Offices are equipped with expensive business machines. Then there are lockers, lunch-rooms, cafeterias, first-aid rooms, hospitals, recreational facilities, parking spaces, and so on—all necessary with the creation of additional jobs.

Cost of a New Job

In different businesses the cost of equipping for each new job varies greatly; and it has been estimated by economists that at the present time it costs somewhere between $8,000 and $12,000 to provide the necessary buildings and other facilities for each new job created.

That means that American business must find investment or venture capital amounting to 600,000 to 800,000 times an average of $10,000, just to provide the new jobs needed every single year for our growing population. That spells $6 to $8 billion. That's a very large task for American business to undertake, and it cannot very well do it all alone. It needs the support of an understanding and cooperative government. And, still more, it needs an understanding people in every town and village in this great land. For if this great task is to be accomplished each year in peacetime, as we accomplished great tasks in war, there must be unity among government, labor and management, or we may fail and face the dire consequences that have occurred elsewhere in the world.

It is therefore to the self-interest of all Americans to help keep our industry, agriculture, transportation and a host of other enterprises that render useful service strong and vigorous and progressive. If we are to remain strong as a nation, this is a "must." That means we must avoid doing those things which hurt business growth or, through lack of proper understanding, hamper the growth of business. And we must promote those moves which will help to strengthen this great job-making force that can exist only in a free country where vigorous competition works for the benefit of the consumer and only the efficient can survive, for there are no cartels and no price-fixing in a truly free economy.

Hurdles vs. Industry

In the face of this growing nee for new jobs, in the face of th huge sums needed for investmen to provide the expansion require for the creation of these new jobs, what is the situation as we see today? I believe I state the trut when I say that instead of unit we have wide division of opinio between government, manage ment and labor. Instead of pro tecting jobs and encouraging new job-making, we are placing mor hurdles in the path of busines and industry. And I believe thi is mainly due to the fact that th American people have not beer told plainly enough and therefor do not sufficiently understan that the job-making function i our nation must be kept stron and everexpanding. It must b protected against unwarranted attacks, whether deliberate or unintentional, for otherwise our country cannot remain domestically strong and internationally invincible.

That means that not only must managements of businesses make their plans with these considerations in mind, but also that government should re-examine its program for attacks on business through, for example, such unwise approach to its purposes as the Celler Committee has been taking, or such politically-inspired attacks as we have seen on organizations like the A. & P. by our Attorney General's office. It means that the discouraging practices that are retarding busines growth should be abolished, s that there may be an incentiv instead of a penalty for risk-taking.

Double Taxation

The double taxation of profit and dividends is one deterrent t business which ought to be re moved. Even an encouragin gesture, or a single step in tha direction, would inspire renewe confidence, as contrasted with th results of attacks upon so-calle selfish interests.

An important member of the Administration, Mr. Thomas Mc-Cabe, Chairman of the Federa Reserve Bank, made some con crete suggestions last summe along this line, but his valuabl advice has remained unused.

How is the current relationshi between unions and managemen toward the job-making functio working out? They are natura partners in all enterprises. But i would seem that the contest fo power among the leaders has become so intense that the best in-

Continued on page 57

Utility Earnings in Relation To Investment Values

By CHARLES C. GLAVIN*
Vice-President, The First Boston Corporation

Stressing need of adequate earnings if utilities are to attract capital for expansion and improvement, investment banker lists as factors of financial strength: (1) stable or increasing earnings; (2) sound capital structure; (3) steady dividends; and (4) proper reward for reinvested earnings. Points out there is no simple or definite formula for testing adequate earnings applicable to all utility companies. Opposes competitive bidding in raising equity capital.

It is my purpose today to discuss the subject of adequacy of earning power for a public service company, particularly in relation to the raising of capital. The word adequacy itself is a relative term, which makes the subject a little like discussing how high is up. At the outset let me assure you I won't attempt an exact definition or even an applicable formula, but I do believe there are certain guideposts deriving from recognition of basic objectives that will help measure adequacy of earnings in a given instance. I believe we must first recognize that the ability to obtain capital is essential to the health and progress of any industry, that your industry cannot expect to provide this capital from earnings at all times and that your industry must look principally to private investors for the capital needed. Consequently, I should like to approach this subject from the investor's side of the fence.

Charles C. Glavin

From the point of view of the investor, your earnings are only adequate if he feels good about your securities that he now owns and feels willing to buy more as you need additional capital. That very important willingness to come again, which is a combination of cash and state of mind, derives from long-term conditioning, which means a *continuous* effort on the part of management to realize sound objectives rather than *sporadic* attention to your finances when you need money. In brief, adequate earnings are those that assure confidence of your present securities holders at *all* times and make possible the attraction of new capital as you need it. You can hit these dual targets only by a continued demonstration of such earnings.

Investors' Attitude Based on Experience

In dealing with investors you are dealing with human beings in their most sensitive spot, their pocketbooks. Most buyers of securities, and particularly individuals, have a peculiar psychology. When they make a successful investment, they pride themselves on their own good judgment and selection; they bought the security; but when the investment is unsatisfactory, someone sold it to them. Your industry learned a bit about this psychology from the customer ownership experience of the 1920's. This human reaction should be recognized in shaping your financial policies because the investors' experience will largely shape their confidence and govern their future willingness to buy, and their memories are long.

There is no mystery about where you find your senior money and it is probable that the supply of this type of money will increase. More important is the source of your equity capital and this is the investor about whom I am most interested. The individual is still by far your greatest source of common stock money and it is in this field you must continue to build interest and, above all, confidence in your future, having in mind that this, your largest body of investors, is the most vocal politically.

The institutional type of investor in stocks, such as casualty and fire insurance companies, investment trusts, personal trusts and others, is also important and this field is growing. The difference is that the institutional investor sets his own standards in relation to the type of funds he is investing. He is rarely "sold" anything. The merchandise he buys either meets his standards of quality or he does not buy, and as more and more trust and pension fund moneys decide to look your way for equity securities, the standards of quality are rising. Therefore, your financial policies will determine your ability to tap this market.

Factor of Earnings Stability

It is my opinion that the present-day utility equity investor, both individual and institutional, is primarily interested in yield, but the interest in yield is both quantitative and qualitative. With it goes the desire for reasonable stability, and above all, continuity. I hardly need remind you of the appeal of this promise as exemplified by the experience of American Tel. & Tel., whose dividend has been paid in good and bad times for 29 years. Hundreds of thousands of people have invested their savings in this stock, and stockholders now number 940,000. This public confidence has built the finest telephone service in the world and has been a life saver to the company in their present huge expansion.

A great deal has been said about the need for encouraging risk capital and this certainly is one of the chief problems of our present high tax economy, but the problem before your companies is not the same as for industrials. The difference in element of risk is recognized by investors. Your investor knows he is buying into a monopoly industry which, quite properly, is regulated as to how much it may earn. He also believes he is buying into a healthy and adult industry. Public confidence in your securities is very high today. And I believe the amount of money available for new investment in your equity securities is also very great, but it represents a deliberate choice over Series E bonds and savings accounts. Many of the owners can be induced to invest, some are even anxious, but most are a little gun shy on stocks generally. We are at times surprised at how much of this money comes out when securities salesmen really go to work, and it is particularly noticeable in selling utility stocks in a company's own territory—evidence of personal confidence in a company they know and see daily. So while investors are aware of the inherent nature of common stocks, they buy utility common stocks in the belief that the element of risk is minimized. Whether you like it or not, I'm afraid this is a responsibility that comes to you with the money.

Capital Structure Factor

It seems to follow that an adequate earning power is something more than a theoretical over-all rate of return or a certain level or amount of earnings. Adequacy must also be related to other financial policies. One of these other factors is capital structure. An adequate earning power—by any definition—on a capital structure of 10% common stock equity is obviously a joke if you seek to attain the desired stability of common stock earnings and dividend continuity. It's needless to show what this kind of leverage would do to common stockholders in the ups and downs of the business cycle. This thing we call leverage in a capital structure is no different from one of us personally buying on margin, whether we buy a stock or a house; the more we borrow on our purchase price, the sooner we are hurt in a falling market. The same is true with earnings in a utility; the higher the senior charges, the wider the swings in the balance of earnings left for the common stock.

It is foolish to propose any uniform rules for balance in capital structures. Personally, I believe the 35% to 40% area is a reasonable goal for the junior equity, but judgment must be exercised in the light of each company's own circumstances; account must be taken both of the types of connected loads and the flexibility of your costs. Apropos of this, I've listened to a great deal of conversation about flexible costs that result from addition of new low cost capacity, but I'm somewhat from Missouri. The obviously greater rigidity of total costs — notably wages and taxes—is to me a red flag on this question.

I recognize that there is a great diversity of opinion on this subject of your junior equity ratio, and I'd rather not labor you with discussion of all the arguments, but I would like to mention several of the factors that impress me in favor of a higher rather than lower ratio. Foremost is the greater stability of earnings available for the common stock that goes with lessened leverage. This is important to the investor because he's no longer a gambler of capital, at least not in the stocks of your industry. It's important to you because you know what his reaction will be if he gets leveraged into the cellar. Secondly, I believe that within reason, the over-all cost of money will be cheaper in the long run. Let's keep in mind that today we are in a very artificial money market, and at today's peak prices for bonds, the double A and single A bonds don't sell much apart. Let rates harden and the spread widens. Preferred stocks of institutional appeal are a wholly different animal from those that aren't and the rate differential is very marked. And over a period of years, common stocks of higher investment quality command better prices. While you're taking a big dose of new money now, your total cost of money can't be measured on today's prices. Your cost of money is a long-term matter. And so is your debt. We are apt to be misled in our basic thinking by present ability to sell long-term bonds at fancy prices, apparently oblivious to the fact we are doing so in a time of worldwide uncertainties and great business risk. As a result, your interest coverage may be handsome, but the size of your debt counts too, particularly as it affects the risks inherent in your equity.

Last, but not least, the constant maintenance of higher junior equity and lower debt means an ever-present bonding power—the one source of money practically

Continued on page 44

*Address by Mr. Glavin at the Spring Conference of The Maryland Utilities Association, March 31, 1950.

Considerations, Pertinent and Impertinent, on Television Stocks

By BRADBURY K. THURLOW
Analyst, Minsch, Monell & Co.
Members, New York Stock Exchange

Citing rise in television shares as indication speculation has not been killed by "New Deal" policies, Mr. Thurlow looks for broadening of stock market activity and continuation of rising prices.

We are not predicting the imminent collapse of television shares from present prices or even intimating that they are not going to continue their recent spectacular rise a while longer, but we shall express no great surprise if the great majority of those who are buying television stocks at today's prices are going to lose a great deal of money and blame their loss on the "evil manipulators of Wall Street." If this is correct, their mistake will have been the classic one of turning a speculative idea into a dogma after it has already shown an unusual degree of market effectiveness. In plain English this means succumbing to the urge to buy something because it has risen in price (or selling it because it has declined). This behavior of the mass human being may be in open defiance of the most elementary principles of logic, but annals going back at least twenty-five hundred years (when the Sybil finally sold her books to the reluctant Romans after several offers by raising the price 100% each time) show that this mass human being is what he is and is not likely to change. Therefore, unless we are devoted to changing the unchangeable we shall do well to observe what goes on around us and try to benefit accordingly.

B. K. Thurlow

To go from generalization to practical application, what, if any, benefit can the average investor derive from observing the frenzy which is now taking place in television stocks? First, he may avoid them like the plague, even if they continue to skyrocket, and content himself with looking elsewhere for next year's bread and butter. Second, if he believes, as we do, that the long-term trend of stock prices is up, he may see in the television stocks a preview of what the general market will look like before the present bull market comes to an end. The foregoing statement may not seem reasonable to many and perhaps they are right. The important conclusion, as we see it, to be drawn from the television boom is that speculation in this country is anything but dead. It is just as alive as it was in 1929 and, given identical fuel, a story, a growth trend, and a "guaranteed" period of expanding prosperity—shows identical characteristics.

This conclusion is very important because it destroys the great post—New Deal bear argument that government and taxes have killed speculation. (It is, of course, obvious to anyone who has made any money in the past 10 years that speculation, i.e., increasing capital rather than income, is the only remaining method by which money may be made or even kept.) If this is so, then we are perhaps entitled to look back at the last 10 years as a period not too unlike the 1914-23 era. If business stabilizes slightly under present levels and then slowly starts to improve, the parallel will be even more striking. If the average investor, with all his cash, government bonds, and life insurance policies, is then allowed to envision a future which is not an economic chamber of horrors, it is quite easy to imagine how he could buy common stocks up to his ears (provided he has not already done so through fear of the dollar). The public is desperately anxious to speculate. It needs only one or two plausible excuses for doing so.

As we said in the beginning, from time immemorial the most powerful factor in inducing public buying has always been rising prices. Prices have now been rising steadily for approximately nine months. Allowing another year or year-and-a-half to allay present widespread fears as to the direction of the trend, it is not difficult to imagine a market in which many issues begin to behave the way television issues are now behaving. Such a period, not now, will be a good time to "observe caution." When Zenith Radio sold at 16 in 1947 (current price 68) it was earning over $7 a share. The obviously low price-earnings ratio was commonly accepted as a harbinger of lower earnings to come. Earnings did decline by 20% in the following year, while the price of the stock quietly doubled. Now, with earnings rising, the price has doubled again. Those who feel sure that lower earnings in the next year will inevitably bring lower stock prices might do well to study the history of Zenith. It may well be providing us with an advance look at what is going to happen someday to the rest of the market.

Robert Gerrish With Walker in Providence

PROVIDENCE, R. I.— Robert G. Gerrish has been appointed Manager of the syndicate department of the Providence office of G. H. Walker & Co., 15 Westminster Street. He was formerly with Whiting, Weeks & Stubbs in Boston.

With Floyd A. Allen Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.— George R. Frost has become associated with Floyd A. Allen & Company, Inc., 650 South Grand Avenue. He was formerly with Gross, Rogers & Co. and the District Bond Company.

With Akin-Lambert

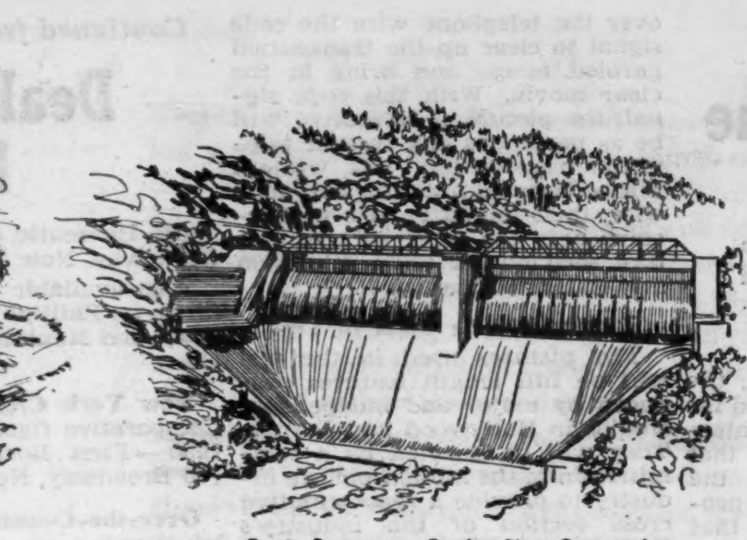
(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Kennedy Hamill has become associated with Akin-Lambert Co., Inc., 639 South Spring Street, members of the Los Angeles Stock Exchange.

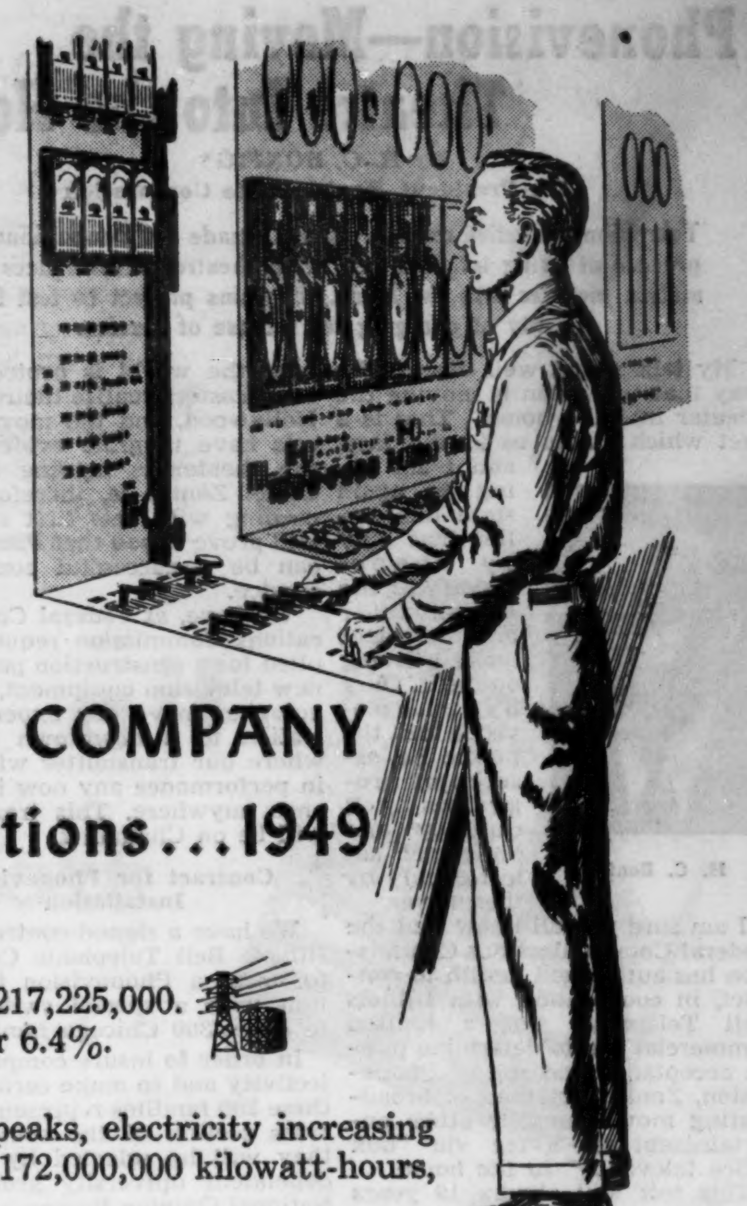
H. A. Eaton Opens

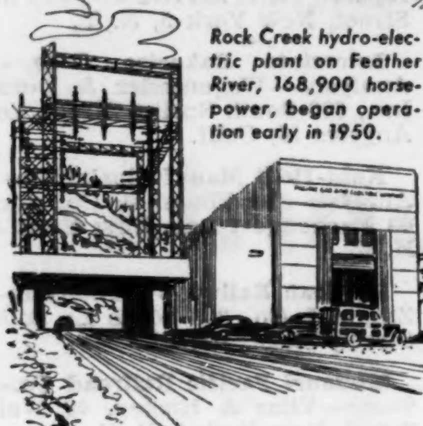
VENTURA, CALIF.—Harold A. Eaton is engaging in a securities business from offices at 445 Jones Street.

Gas storage holder with capacity of 17 million cubic feet was completed and placed in operation in 1949 at Point Richmond.



Cresta Dam across Feather River Gorge where water is diverted to operate Cresta Power House down stream. Completed in 1949, these facilities add 100,536 horsepower to system capacity.





Rock Creek hydro-electric plant on Feather River, 168,900 horsepower, began operation early in 1950.

PACIFIC GAS AND ELECTRIC COMPANY

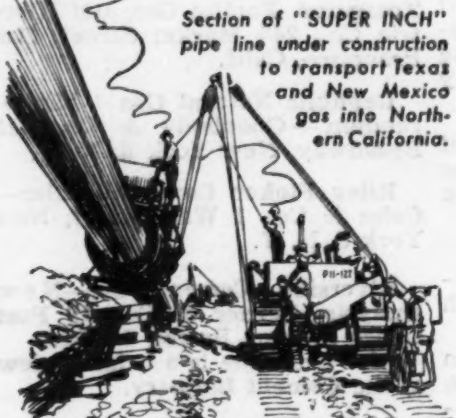
Highlights of the Year's Operations...1949

Early in 1949 a second steam electric generating unit, 148,943 horsepower, was placed in operation at Station P, San Francisco.

Gross operating revenues established a new record of $217,225,000. The increase over the previous year was $12,983,000, or 6.4%.

Sales of both electricity and gas reached new peaks, electricity increasing 13% and gas 2%. Sales of electricity totaled 10,172,000,000 kilowatt-hours, and sales of gas 166,178,000,000 cu. ft.

Service was extended to 113,655 new customers. At the year-end 2,259,215 customers were being supplied in all branches of our operations.



Section of "SUPER INCH" pipe line under construction to transport Texas and New Mexico gas into Northern California.

Construction expenditures totaled $192,480,000 as the Company reached the peak of its six-year postwar expansion program.

Construction started on a 34-inch pipe line to transport Texas and New Mexico gas into Northern California—the largest diameter pipe line ever built for high-pressure transmission of natural gas.

New securities with a par value of $136,010,025 were issued and successfully marketed to carry forward our postwar expansion program.

Moss Landing steam electric generating plant under construction on Monterey Bay. Capacity 402,144 horsepower.

There was a gain of 6,208 in the number of those participating in ownership of the Company. At the year-end, the Company had 160,467 stockholders of record.

The California Public Utilities Commission granted an increase in gas rates, totaling $4,000,000 a year, effective November 28, 1949—our first increase in gas rates in twenty-nine years.

In October the Company made application for an increase of 6% in electric rates, or $8,820,000 a year. It was granted effective April 15, 1950, and is the first increase in our electric rates since 1920.

Contra Costa steam electric plant, scheduled for completion in 1951.

Net earnings for the common stock were $2.10 per share, based on average shares outstanding. The increases in rates, together with better operating efficiencies, continued business growth and prospects for more normal precipitation, are expected to raise earnings to more satisfactory levels in 1950.

President

PACIFIC GAS AND ELECTRIC COMPANY 245 MARKET STREET SAN FRANCISCO, CALIFORNIA

A copy of our 1949 Annual Report to Stockholders will be supplied upon request to E. J. Beckett, Treasurer.

Phonevision—Moving the Theatre Into the Home

By H. C. BONFIG*
Vice-President, Zenith Radio Corporation

Television executive reveals progress made in "Phonevision," a process of using telephone to bring theatre performances and motion pictures into the home. Explains project to test feasibility of charging fee for use of service.

My talk might well discuss the way that television is moving the theater into the home. That is a fact which stares us in the face, and I am going to again state our belief that only by Phonevision will the broadcaster and the talent make a living out of it. Only by Phonevision can the public be assured of programs of a quality and character selected only by themselves.

H. C. Bonfig

I am sure you all know that the Federal Communications Commission has authorized Zenith to conduct, in cooperation with Illinois Bell Telephone Co., a limited commercial test to determine public acceptance and use of Phonevision, Zenith's method of broadcasting movies and/or other entertainment-for-a-fee via "box office television" in the home.

This test will climax 19 years of technical research in Zenith's laboratories and three years of actual transmission of Phonevision broadcasting here in Chicago. It will enable us for the first time to put to an acid test a question which for years has had increasing concern for motion picture producers, television broadcasters, and television manufacturers. That question is, "How much will the public pay, how many times, to see good movies on the television receivers in their homes?" or more specifically, "How frequently will people pay $1 per feature for such movie service?"

Previous surveys have shown that 62% to 80% of the public were "willing" to pay to see good feature pictures in their homes. Now we will finally be able to determine to what extent they will back up that willingness with dollars.

It is more than three years since we began to include Phonevision broadcasts on the program of our experimental station in Chicago. You may well ask, "Why is it that Zenith has delayed this long in launching an actual test?" There have been three important reasons for our delay:

First: Zenith delayed for the purpose of extending its patent picture in the United States and foreign countries.

Second: Three years ago, television broadcasters refused to believe that the advertisers could not pay for the type of top entertainment the public would demand from television. It took last year's operating loss of well over $15,000,000 to convince them.

Third: The movie industry would not believe three years ago that this new competitor, television, would do to the movie box-office what it is doing today, and what it is going to do before the end of this year when 30 to 40 million people will be viewing television in their homes. Many television viewers will go to the movies less and less, and some will stop going altogether.

That is why Zenith delayed. Today, however, our patent picture over the world is protected, the broadcasters realize their need for Hollywood, and the movie interests have tangible evidence that the theater is moving into the home. Zenith is, therefore, proceeding with this first step that will prove to you that Phonevision can be a successful commercial service.

We have, at Federal Communications Commission requests, applied for a construction permit for new television equipment, and are going to move our experimental station to a downtown location where our transmitter will equal in performance any now in existence anywhere. This transmitter will be on Channel 2.

Contract for Phonevision Installation

We have a signed contract with Illinois Bell Telephone Company to make a Phonovision installation with a special switchboard to serve 300 Chicago families.

In order to insure complete objectivity and to make certain that these 300 families represent a true cross section of the community, they will be selected by an independent university group, the National Opinion Research Center of the University of Chicago, which will also analyze the results of the test. Policy phases of the experiment will be developed by a committee of persons from the motion picture and television industries, and from Zenith, aided by appropriate technical experts.

Each of the 300 homes selected will be supplied by Zenith, at no cost, with telephone and television receiver equipment necessary to receive Phonevision broadcasts. Where appropriate, the test subscriber's own television set will be provided with the necessary decoder. In many cases, complete Zenith receivers will be supplied, which are already equipped with an outlet to accomodate the Phonevision decoder unit. A number of homes, however, will be equipped with other makes of television receivers, for the obvious reason that this will demonstrate better than a million words that Phonevision will work with any make of television receiver.

Inasmuch as everyone of these 300 receivers will receive all standard television programs as well as Phonevision, our Phonevision broadcasts in each home will be in competition with other television broadcasts, as well as with all entertainment features which today compete with television. As nearly as possible this test will duplicate the conditions under which commercial Phonevision of the future would operate if Phonevision were authorized on a commercial scale by the Federal Communications Commission.

Everyday for 90 days Zenith will broadcast a different full length feature picture from our Phonevision-equipped television transmitter. Reception of these pictures will be available only to the 300 test families who comprise our "potential customers." All other television receivers tuned to Channel 2 will receive a picture that is hopelessly blurred and jittery.

If the members of any "test" family wish to "go to the movies at home" on any night and see one of the feature movies being broadcast by Phonevision, they will simply dial their Phonevision operator. Then they will receive over the telephone wire the code signal to clear up the transmitted garbled image and bring in the clear movie. With this code signal, the picture they receive will be as perfect as any regular television transmission. But, without this code signal over the telephone wire, their television sets will receive only the same garbled picture seen on all other television sets tuned to Channel 2.

Pictures to Be Used in Test

The pictures used in the test will be full length features produced by major and independent studios in Hollywood and Europe. They will be selected by a committee from the motion picture industry to provide a representative cross section of the industry's feature productions.

Although the 300 test families will not be charged any rental for the television sets loaned to them, they will be billed at the rate of $1 each for every picture they desire to see on Phonevision. By checking their patronage over a three-month period, we will finally secure an answer to the long standing and vital questions: How rich is the new market that exists for motion pictures delivered to the home by pay-as-you-see television? What dollar revenue can be secured by television stations for each hour of broadcasting feature pictures by Phonevision?

We have, of course, made estimates, highly conservative, on the revenue that Phonevision will bring to television transmitters. In any market anywhere, with due allowance for rate increases as television set ownership expands, our projections show Phonevision revenue so much greater than advertising revenue that if I were to give them to you now you would accuse me of smoking hashish.

Here is something that I would like to emphasize. Zenith is not going into the entertainment business, and Phonevision is not going to be a Zenith monopoly, even from a manufacturing standpoint. Zenith is offering it to every radio and television manufacturer. When complete Phonevision sets are built, the royalty will be a flat 50 cents per receiver, no matter how much a set sells for—in other words, we are not charging royalty on other parts of the radio receiver. Moreover, we have just offered to all radio manufacturers the privilege, without payment of any royalty, of equipping their sets with an outlet which will accommodate the Phonevision decoder unit. You have all heard of compatibility. Well, gentlemen, the equipping of sets built today with an outlet to accomodate the Phonevision decoder unit will make them completely compatible and prevent their obsolescence if Phonevision becomes a commercial reality.

*An address by Mr. Bonfig before the Chicago Television Council, Chicago, Ill., March 8, 1950.

John Gahan V.-P. of Schoellkopf, Hutton

John Gahan

Schoellkopf, Hutton & Pomeroy, Inc., 63 Wall Street, New York City, announce the election of John P. Gahan as Assistant Vice-President.

Continued from page 8

Dealer-Broker Investment Recommendations

York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Also available are card memoranda on **Phillips Petroleum Company, and Mexican Light & Power Co.**

New York City Bank Stocks—Comparative figures at March 31, 1950—First Boston Corporation, 100 Broadway, New York 5, N. Y.

Over-the-Counter Index—Booklet showing an up-to-date comparison between the thirty listed industrial stocks used in the Dow-Jones Averages and the thirty-five over-the-counter industrial stocks used in the National Quotation Bureau Averages, both as to yield and market performance over an eleven-year period—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Plus Twenty Stock Portfolio—And two weeks trial market letters—Ask for Portfolio No. C, Market Direction, Inc., Pure Oil Building, Chicago 1, Ill.

Speculative Merits of Common Stock Warrants—Sidney Fried—Dept. C., R. H. M. Associates, 220 Fifth Avenue, New York 1, N. Y.—$2.00

Stock Market Reversal—Analysis of probable Time and Price Limits with recommendations for conserving income and increasing investment capital—current bulletins and next 7 weeks advices $3 (annual rate $36)—Dept. A-10, Bondex Incorporated, 654 Madison Avenue, New York 21, N. Y.

Successful Investment Salesmanship—Textbook of investment **salesmanship**—Retail Book Department, Barron's Publishing Company, Inc., 388 Newbury Street, Boston 15, Mass.—$3.00

Television—Analysis of current television picture—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

* * *

Aerovox Corp. — Circular — Ames, Emerich & Co., 105 South La Salle Street, Chicago 3, Ill.

Also available are circulars on **American Phenolic Corp., Bell & Gossett, Central Paper Co., Consolidated Cement Corp., Gerber Products and Glass Fibers, Inc.**

American Mercury Insurance Co.—Report—Peter P. McDermott & Co., 44 Wall Street, New York 5, New York.

American Radiator & Standard Sanitary Corp. — Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Atlantic Coast Line Railroad Co.—Analysis—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Baltimore Transit Co.—Analysis J. V. Manganaro Co., 50 Broad Street, New York 4, N. Y.

Bingham - Herbrand Corp. — Analysis—Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

Also available is a circular on **Associated Transport, Inc.**

Burry Biscuit—Circular—Richard E. Kohn & Co., 20 Clinton Street, Newark 2, N. J.

California Water Service Co.—Circular — Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Centlivre Brewing Co.—Circular—Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

Also available is a circular on **Drewry's Ltd.**

Central National Bank of Cleveland — Circular — First Cleveland Corp., National City East Sixth Building, Cleveland 14, Ohio.

Central Public Utility Corp.—Card memorandum—F. S. Yantis & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

Cities Service Co.—40th annual report—Cities Service Co., 70 Pine Street, New York 5, N. Y.

Interstate Bakeries Corp. — Analysis — Wagenseller & Durst, Inc., 626 South Spring Street, Los Angeles 14, Calif.

Kold-Hold Manufacturing Co.—Analysis—Luckhurst & Co., Inc., 40 Exchange Place, New York 5, N. Y.

Mexican Railways — Analysis—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Missouri Pacific Railroad Co.—Study—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

National Tool Co.—Special report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Also available is a study of the **Mac Whyte Co.** in the current issue of Business & Financial Digest, and a circular on **American Casualty Co.**

New England Public Service Co.—Booklet available for institutions and dealers—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Pacific Gas and Electric Co.—1949 annual report—E. J. Beckett, Treasurer, Pacific Gas and Electric Co., 245 Market Street, San Francisco, Calif.

Republic Natural Gas — Memorandum — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Riley Stoker Corp.—Circular—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Riverside Cement Co.—New analysis—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Also available is a brief review of the Cement Industry.

Rudolph Wurlitzer — Revised analysis — Raymond & Co., 148 State Street, Boston 9, Mass.

Standard Gas & Electric—Circular — Josephthal & Co., 120 Broadway, New York 5, N. Y.

United Air Lines, Inc.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

United Biscuit Co. of America—Circular — Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Walt Disney Productions—Analysis—Batkin & Co., 30 Broad Street, New York 4, N. Y.

Joins Atwill Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI, BEACH, FLA.—George L. Mendes, Jr., has become affiliated with Atwill & Co., 605 Lincoln Road.

Waddell & Reed Adds

(Special to THE FINANCIAL CHRONICLE)

ORLANDO, FLA.—Dale L. Whitehurst is with Waddell & Reed, Inc., Kansas City.

Joins Chesley Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John C. Pierce has joined the staff of Chesley & Co., 105 South La Salle Street.

Thousands of Cities Service men and women in their daily work last year searched for and found new sources of oil and gas . . . drilled new wells . . . discovered 100,000,000 barrels of liquid hydrocarbons . . . brought the Company's oil and gas reserves to the highest point in history . . . completed such facilities as a $42,000,000 lube oil refinery, a $30,000,000 26-inch natural gas pipeline 388 miles long, a $20,000,000 refinery expansion . . . refined 69,400,000 barrels of crude oil . . . distributed 429 billion cubic feet of natural gas to 633,000 customers in their homes and factories . . . transported by tanker and pipeline 246,000,000 barrels of oil products . . . sold 3 billion gallons of refined oils . . . these varied activities made it possible for the Directors to report to the stockholder-owners that their Company is in the strongest position in its history.*

Behind your gas and oil
— *and our Annual Report*

—stand the men and women whose team-work provided $582,000,000 worth of products and services in 1949 for the millions of Cities Service customers.

A man with *imagination* reading the Annual Report of a Corporation sees behind the cold statistics the pulsating human activities of the thousands of men and women without which there would be nothing to report. They perform the multitude of skilled operations which are necessary before the finished oil and gas products are ready for use on the farm, in the home, on the highway, and in the factory.

As a result of these activities, Cities Service was able to give its 236,000 stockholders the following consolidated financial comparison:

	1949	1948
Gross Operating Income	**$582,560,721**	**$563,657,035**
Net Income	**55,057,822**	**65,777,039**
Cash and Government Securities	**160,189,903**	**144,368,967**
Net Current Assets	**180,542,106**	**161,867,520**

CITIES SERVICE

W. Alton Jones, President

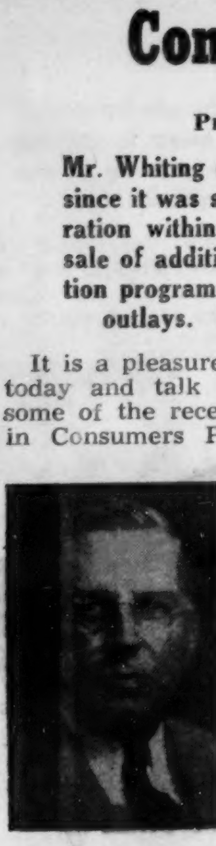
**All figures are from the Cities Service 40th Annual Report, which is available on request. Write 70 Pine Street, New York 5, N. Y.*

Recent Developments in Consumers Power Company

By JUSTIN R. WHITING*
President, Consumers Power Company

Mr. Whiting describes progress in Consumers Power Company since it was separated from Commonwealth & Southern Corporation within last year. Recites successful financing through sale of additional common shares and reveals heavy construction program and need for additional funds for future capital outlays. Explains company's natural gas developments.

It is a pleasure to be with you today and talk with you about some of the recent developments in Consumers Power Company.



Justin R. Whiting

The last time I talked to you about this company I believe was three or four years ago, when I lived here in New York, as President of Commonwealth & Southern Corporation with Consumers as our largest subsidiary.

Much has taken place during these three or four years. Consumers went out on its own Sept. 30, last, at which time several of our directors resigned and the vacancies were filled by Michigan men, so that now, outside of Mr. Lindsay Bradford of City Bank Farmers Trust Company and Mr. Edwin Thorne of the First National Bank of New York, the other nine directors are residents of Michigan.

Consumers Power Company serves about 2,500,000 Michigan people in a 25,000 square mile area. For the 12 months ended February, gross revenue was $95,800,000, as against $87,400,000 for the corresponding period a year ago. This is the largest 12 months' business in our history. We come down to a balance of $12,500,000, as against $10,800,000 last year. We have more shares of common stock out, nevertheless our earnings are on the average of $2.73 per share, as against $2.54. I make no prophecy as to how this business may continue for the balance of the year.

Percentagewise, on the basis of last year's report, electric gross revenue amounts to about 78% of the total; gas, 20%, and the balance water, heating and miscellaneous.

Since our recent sale of 454,457 shares of common stock we now have outstanding 4,999,033 common shares, with 44,000 stockholders divided roughly, into 23,600 common stockholders and 20,400 preferred.

You may be interested to hear some of the results of this recent sale of 454,457 shares of common stock. As you know, the subscription price was $34.25. Of the total offered, 416,208 shares, or 91.6%, was subscribed for by the exercise of rights. The unsubscribed balance was offered to employees of the company and its subsidiary, Michigan Gas Storage Company, limited to a maximum amount of 100 shares per person. Employees subscribed for 21,287 shares of which 8,627 shares were purchased for cash and 12,660 shares under an installment loan purchase plan. 1,281, or about 18% of the employees, participated. After the purchase by employees the balance of 16,962 shares was taken by the underwriters. The proceeds of the sale were $15,565,152 before expenses.

Financing Outlook

With the proceeds of these funds the $9,000,000 of short-term loans to banks were paid and the balance will be used in this year's construction program which looks as if it would run $40,000,000. We have said that we would probably require additional financing this year in the amount of $20,000,000. I think this may be somewhat on the high side.

I know you may be interested to have me tell you what our plans are as to this additional financing, but I must be frank to say that we have not crossed this bridge yet. My own thinking is that if later on in the year we could bring out another issue of common stock on the basis of one share to ten at a price which would make the rights to stockholders worth something, that would be a desirable thing to do.

But let us not have the word go out that we are going to do that because we haven't yet decided it. I don't want to be pursued by underwriters, and if we do it, I don't know that we would have an underwriting. We certainly don't look forward to any financing until after the second quarter, and by then we will have a bondability in property under the mortgage of over $45,000,000.

In addition to this, under the Michigan statutes, we may borrow from banks for a two-year period with the right to renew for another year without Commission approval. I mention this because it gives us much more flexibility to decide how we may proceed when the time comes.

Growth in number of customers continues. From 467,163 electric customers served in 1940, the total has increased 33% to 623,000 at the beginning of this year. We have not yet caught up on our applications for electric service, and had 7,500 applications not yet filled when 1949 closed. We hope to clean this all up this year. During this time gas customers have grown from 209,700 in 1940 to 289,788, or an increase of 38%.

This growth in both branches of the business is due in large measure to the increased population in the territory in which we operate. Michigan gained more people since 1940 than any other State, with the exception of California, in the gross amount of 1,100,000. Of the States east of the Mississippi River, Michigan's percentage of growth is only exceeded by that of Florida and the District of Columbia.

Electric Sales and Development

Gross revenue from electric sales last year amounted to $71,776,122. You may be interested to see where this gross revenue came from. In the electric branch of the business I show you the three classifications in millions of dollars. Residential is highest (40%), commercial (23%), industrial (34%), and miscellaneous (3%). While we are glad to have this diversified classification, investors are always glad to see a utility company high in residential, because this branch of the business enjoys a stability which is not susceptible to the variation that the industrial and, to a lesser degree, the commercial are.

Our average residential electric rate is considerably below the national average, being 2.4¢ per kilowatt-hour, against the national average of 2.96c. Our average residential electric use was 2,203 kilowatt hours last year, against the national average of 1,685.

Consumers Power Company serves more farm customers than any other utility in the country, the 100,000th farm having been connected in 1949, with the job of electrifying the farms in our operating territory now virtually completed. During the last 20 years our farm customer average use rose from 721 kwh. to 3,370 kwh. in 1949, an increase of 367%. This is a very stabilizing factor in our business because the farms use electricity when the factories may not.

$191,742,000 for Construction

We have had a tremendous construction program extending over the last 11 years in which we have spent $191,742,000. This large program started in 1939 when we were anticipating the war loads. This year's budget, which is not included in the above, will run about $40,000,000, or a little higher than 1949. During this 11-year period we have more than doubled our electric generating capacity, from 473,715 kilowatts to 987,265.

This year we will bring on the line another 60,000 kilowatt unit at our Cobb plant at Muskegon. Our new Erie plant, located on Lake Erie some 12 miles above Toledo, will be coming into operation in 1952 with a first unit of 85,000 kilowatts. We have had an increase of 129% in peak demand from 1939 to 1949. This is what we are required to build for.

Natural Gas Development

Gross revenues in gas sales last year were $17,930,000. Domestic sales represent 42% of this gas business, space heating, 35%, and commercial and industrial, 23%.

We are taking on many new space heating customers. Last year, with the authority of the Michigan Public Service Commission, we took on 12,000 added space heating customers. Early this year all restrictions were removed and at the close of last week we had added 9,732 space-heating customers. This brings our total space heating customers up to 62,596. At the time we applied to the Commission to lift restrictions, we told the Commission we expected to add 15,000 space heating customers this year. We are revising these estimates now and believe a more realistic figure is in the neighborhood of 30,000. The average space heating customers under our present rates will have an annual bill of about $140. In March we had an all-time record in the sale of over 3 billion cu. ft. of natural gas. On a heat equivalent basis this is equal to all the manufactured gas sold in the entire year of 1932.

In the development of our Michigan Gas Storage for the past three years, and through this present year . . . we had little cushion in 1947 and we dipped into it in 1948 and 1949. Last year we put some gas in storage and this year we have gained. We will have over 65 billion cu. ft. in storage at the year-end. At no time over these years has any customer been forced to curtail or suspend operations due to lack of adequate gas supply.

*An address by Mr. Whiting at meeting of the New York Society of Security Analysts, New York City, April 19, 1950.

With Lloyd D. Fernald

(Special to THE FINANCIAL CHRONICLE)

HOLYOKE, MASS.—Alphonse W. Strycharz is now with Lloyd D. Fernald & Co., Inc., Holyoke National Bank Building. He was formerly with F. L. Putnam & Co., Inc.

Savings Banks and Government Bond Market Outlook

By MURRAY OLYPHANT*
Vice-President, Bondex, Inc., New York City

Specialist in government bonds reviews bond holding positions of both savings banks and commercial banks, and points out that, for savings banks, the best issues to acquire are those of longest maturities. Predicts little change in interest rates on government bonds over next two years and foresees only slight fluctuations in government bond market, despite probable increases in new financing. Holds inflationary threat unlikely.

Four years ago lacking four days, I stood here and tried to make some semi-intelligent remarks on the subject of the "Future of Your Bond Account." The audience was composed of both commercial and savings bankers. What I had to say was chiefly devoted to pointing out that whatever the difference might be between the investment problems of the two classes of banking institutions, fundamentally they were both equally concerned over the probable future course of interest rates, both were equally dependent on the income received from their earning assets, and that for both a very large part of that income would continue for many, many years to be derived from cutting the coupons from their government securities. In the last couple of years the percentage of such income to total income has fallen somewhat below what it was in 1946, as it has been found possible and expedient to add materially to loan and mortgage commitments with obvious benefit to the average rate received from all earning assets.

Nevertheless, it is just as true now as it was four years ago, that you are scheduled to be very large holders of government securities for a long time—they were 56% of the earning assets of all mutual savings banks on Dec. 31, 1949, and 54% of total assets—and that you will have more money invested in them than in anything else more or less indefinitely, which is my reason for giving these remarks the subtitle, "How They Have and Probably Will Behave."

Of course, speech titles don't really mean much. Sermons start off with texts, but like Mark Twain's Knight, thereafter they ride madly off in all directions, depending on the personal interpretations of the speaker. Well, I'm like that Knight only in reverse. Whatever the title, I ride off in only one direction. A while ago a friend of mine asked me if I would address a group, and when I expostulated on the mental wear and tear of preparing for a supposedly extemporaneous chat, he shut me off by saying "Nuts! You know you have only one speech however you dress it up. Low interest rates are here to stay." Well, that is my story. If true, and I think it is, then there is really no particular sense in getting people to come and talk about what to do with the various different issues of government bonds, shorter or longer to their supposed callable or maturity dates, because if nothing more than very minor changes in the interest rate are to be expected—especially the longest rate—then obviously (at least it seems to me to be obvious) the bond for you to buy is the highest coupon available at the lowest premium whenever you have the money to make the purchase.

Now, I said "supposed callable or maturity date" deliberately, not because there is the slightest doubt that cash will be available to those that want it, since cash produces no income. You must reinvest in something. Moreover, what else will you find when you get the cash than whatever the Treasury Department offers in order to get the money to pay the maturity. Unless there should be a sharp reduction in the total of government debt—the prospects for which are negligible—or a sharp increase in other available investment media — and where could there be enough of that?—it is a certainty that early maturities or no early maturities, you are going to stay about where you are in so far as the total of your government holdings are concerned. Well, where are you? (By you, I mean the 530 mutual savings banks which report monthly to the Treasury Department.)

As of Jan. 25, all mutual savings banks reported total loans and investments of $20,610 million. Loans and mortgages accounted for $6,660 million (32%). Investments, $13,950 million (68%). Of the investments, governments amounted to $11,520 million, that is 56% of total loans and investments and 83% of the investments. This breakdown is very similar to that of all commercial banks as of the same date. They had loans at 35% and investments at 65% of earning assets with governments amounting to 87% of investments. So, for all the banks—savings as well as commercial — the ratios are quite similar.

Maturity Distribution of Savings Bank Bond Holdings

At this point it is always a pleasure to congratulate savings bankers as more skilfull and productive analysts of the course of interest rates than their friends in the commercial banking field. The justification for the bouquet is the difference in the maturity schedule of their respective holdings. I am not quite sure that shrewd analysis of the factors underlying the behavior of interest rates has perhaps been, shall we say, as determinative of your selection of the longer bonds as has the pressure of the cost of your deposits, but I am quite willing to give you the benefit of the doubt. Anyhow, this is the way the maturity schedule of governments shapes up (and if you took the schedule of all investments it would not be very different).

As of Dec. 31, 1949, the 530 mutual savings banks reporting to the Treasury had maturities for their government bonds (10 earliest call) like this:

4% due within 1 year
10% due in 1 to 5 years
25% due in 5 to 10 years, and
61% due in over 10 years.

That is 14% of the almost cash and little income issues, 25% in the so-called intermediate, and neither fish, flesh, nor fowl as either proof against market changes or good income payers, and 61% in the investment for income. Incidentally, the over-10-year group was over 80% until June of last year when the $2\frac{1}{4}$ June 15/59/62 slipped under the 10-year range and appears to have

*An address by Mr. Olyphant before the Investment Forum of the Savings Bank Association of Connecticut, New Haven, Conn., April 19, 1950.

been retained in spite of the ¼% smaller coupon with the hope that in 1952 they can be sold to commercial banks at a price well above their present quotations.

Commercial Bank Holdings

What do we find the commercial banks have done?

The 7,249 commercial banks reporting to the Treasury and stated by the Treasury to represent 95% of all commercial bank government holdings had at the end of last December:

	Comm'l Banks	Savings Banks
Due in 1 year or less	40%	4%
Due in 1 to 5 years	41½	10
Due in 5 to 10 years	12	25
Due in over 10 years	6½	61

That is 81½% of all their governments will have to be exchanged for something else within 5 years, as compared with 14% of yours.

Now, something is wrong with this picture. Either you have your neck out from the standpoint of future market value or your opposite numbers have had a bad case of stage fright regarding the future long-term interest rate. Personally, I don't think your neck will be chopped off. Naturally, the supposed greater degree of volatility for demand deposits in commercial banks—and they are very volatile in some institutions—would not warrant them in matching your positions, but it is hard for me to believe that they are not still cherishing the hope—so long deferred that I should think the heart would be a little sick—that somehow, sometime, their maturity roll-overs will start an improvement in the income received. Of course, recently there has been some improvement for them because of the shift from the very low wartime short-term rates to those prevailing today, but this has been offset by the recurring call of bonds most of which were originally obtained and held at better rates than were received from the new securities offered in exchange by the Treasury Department. So far it seems safe to say that the excessively short-term position of the commercial banks—to the extent that it was excessive because greater than conservatively needed for secondary reserves, which it certainly has been so far—evidences poor judgment as to what would happen to the interest curve from year to year. On the other hand, your greater concentration in the longer issues with their better income production entitled you to an award of merit as sounder forecasters of the interest rate behavior, although, as I said, the cost of your deposits may have had something to do with it.

In fairness to the commercial banks, however, it should be said that the character of the war financing with its emissions of huge quantities of bonds which they could not buy—and you could—has had the effect of very sharply limiting their choice. Actually since 1948 there have been only two issues longer than 10 years which they could buy—the 2¾s 65/60, partially tax free and hence only available at a high premium (now nearly 14 points), and the so called "Bank" 2½s 72/67; and they already own over 80% of the first and about 75% of the second. Moreover, due to the passage of time and the Treasury policy of only putting out very short refunding issues (until just recently) their choice in the 5 to 10 year range was quite limited, with the result that demand pushed prices to a point where the interest return was quite unsatisfactory in relation to maturity extensions. They have not had an easy time.

Your situation was far nicer. During the War over $34½ billion of 2¼% and 2½% bonds were made available to other than commercial banks. Of these issues you owned (Dec. 31, 1949) $8,932 million (more than ¼) of which $2,462 million are 2¼s and the rest 2½s. Then you own $1,547 million of the so-called eligible issues, practically all with 2% or better coupons but which would seem to offer an opportunity in many cases for sale and replacement with the better yielding ineligible bonds.

Restrictions on Commercial Banks

Now these bonds, which you can buy and the commercial banks cannot, have an interesting possibility. The $8,754 million 2¼s can be bought by Commercial Banks during 1952 as can $4,949 million of the 2½s. Then in 1953, $7,599 million 2½s get okayed for Commercial Banks and $8,678 million in 1954. The balance of $14,405 million 2½s cannot be bought by Commercial Banks until 1962. These include the oversize issue of Victory 2½s (nearly $11½ billion) which in retrospect was purely a funding issue and not for the purpose of clearing up war costs. From time to time Commercial Banks did have a chance to get a few of all these issues as a percentage of their time deposits but always with a top limit of $100 million, so

Continued on page 51

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Since the first of the year there have been numerous banks outside of New York City which have announced plans for new financing, capital increases, stock-splits or mergers.

Part of the reason for this action arises out of the deposit trends of the past several years. As a general rule, the country and reserve city banks have had a much greater increase in deposits during the last decade than have the central reserve city banks of New York and Chicago. This has meant that the capital ratios of the banks in the smaller centers have in recent years been considerably higher than those of banks in New York City. For example, at the end of 1949 most banks showed a capital-deposit ratio of one-to-sixteen while in New York the ratio was one-to-ten.

At the end of the war these capital-deposit ratios were considerably higher than at the end of last year. They have been improved because of two developments—first, the level of deposits is now somewhat lower and second, by retaining a large portion of earnings and in some cases selling new shares the capital of the banks has been increased.

While in some cases the combination of lower deposits and retained earnings has been sufficient to bring about a better capital-deposit ratio, in other instances, especially in the faster-growing sections of the country, the need for additional capital has necessitated the sale of new stock through the issuance of rights to existing shareholders.

Such has been the case with the Bank of America. The stock of this institution was recently split two-for-one and on April 14, 1950, the board of directors announced that a special meeting of the shareholders of the bank will be held May 2 in San Francisco to vote upon a proposal to increase the capital from $127,975,650 to $150,000,000. Providing the proposal is approved, rights to subscribe for additional common shares would be issued in the ratio of one share for each six shares owned at the close of business May 11, 1950. The subscription price would be $20 a share and the rights expire June 1. In addition to the shares sold to stockholders, 111,212 shares and any unsubscribed stock would be sold to bring total number outstanding to 24,000,000.

Another of the major banking institutions on the West Coast which has announced financing recently is the American Trust Co. of San Francisco. Stockholders have been given rights to subscribe for 118,963 shares of additional stock on the basis of one share for each four held. The subscription price for the new shares is $44.42 and the rights expire May 15.

The Detroit Bank has also indicated that subject to the approval of stockholders at a meeting held April 25, 1950, the common capital stock of the bank would be increased through the issuance of rights on the basis of one new share for each five held.

A considerable number of smaller banks scattered throughout the country have taken similar action during the past few months. Some of these include Citizens National Bank (Chicago); Commercial National Bank (Santa Ana); Corpus Christi National Bank; Cumberland County National Bank & Trust Co.; First National Bank of Arizona (Phoenix); Peoples Industrial Bank (New York), and Savannah Bank & Trust Co. (Georgia).

A larger number of banks have increased their capital by the declaration of stock dividends and the transfers from surplus, undivided profits or unallocated reserves. Also, the trend towards merger has been in evidence among some of the smaller banks. The exact reasons for such a development are difficult to determine and may not necessarily be the same as in the case of New York City where the inability of banks to earn a sufficient return on capital has made it desirable to merge. Sometimes, with smaller banks, it may be because af family interests or similar personal considerations. The desire for more efficient operations, however, would always exert some influence.

As the forces responsible for these various trends in banking during the past several years are still present in the economy, to a greater or lesser extent, it is expected that there will be more instances of banks selling new shares, declaring stock dividends and splits and merging.

C. F. Cassell Adds New Representatives

CHARLOTTESVILLE, VA. — C. F. Cassell & Co., Inc., 114 Third Street, Northeast, member Midwest Stock Exchange, has announced that Alfred L. Wood and James C. Green have recently become representatives of the firm. Mr. Wood will be located in Norfolk, Va. and Mr. Green will be located in Arlington, Va.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

HASTINGS, NEB.—Paul R. Pierce has been added to the staff of Waddell & Reed, Inc. of Kansas City, Mo.

With Shillinglaw Firm

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John E. Hallowell is with Shillinglaw, Bolger & Co., 120 South La Salle Street.

First Boston Group Underwrites Rochester G. & E. Exchange Offer

Additional New Preferred Publicly Offered

Stockholders of Rochester Gas & Electric Corp. yesterday (April 26) were offered 50,000 shares of new 4.10% preferred stock, series H, plus a cash payment and dividend adjustment totaling $5.1625 per share in exchange for the utility's outstanding 4¾% preferred stock, series G, on a share-for-share basis. The First Boston Corp. heads a banking group which will purchase from the company any shares of new preferred not issued under the exchange offer plus 30,000 additional shares not being offered for exchange. The latter shares are presently being offered by the underwriters at $100 per share plus accrued dividends from March 1. The offer expires at 3 p.m. on May 4, 1950.

Proceeds from the financing will be used to redeem all unexchanged shares of 4¾% preferred stock, of which there are 50,000 shares presently outstanding; to reimburse the company for unfunded costs of construction since 1947; to discharge short-term construction loans made in 1950 and for other corporate purposes.

Under the company's construction program for 1950-1951, approximately $26,000,000 will be spent to meet the increasing demands for utility service, of which $19,400,000 will be for electric facilities and $5,800,000 for gas.

J. F. Reilly Co. to Be Formed May 1

J. F. Reilly & Co., Incorporated will be formed with offices at 61 Broadway, New York City, as of May 1. The firm will act as participating distributors and dealers in public utility, natural gas, railroad, industrial and sugar securities.

Officers will be John F. Reilly, President; Sydney Holtzman, Vice-President, and William Frenkel, Treasurer. Mr. Reilly will handle public utility and railroad securities; Mr. Frenkel will be in charge of sugar securities. Mr. Holtzman will be in charge of industrial securities, assisted by Robert Krulisch.

Mr. Reilly, a former member of the New York Stock Exchange, in the past was President of the former firm J. F. Reilly & Co., Inc. Mr. Holtzman was associated with that firm and recently has been with Marx & Co. Mr. Frenkel was with Shaskan & Co. and prior thereto with Strauss Bros.

With Johnson, Lane, Space

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—Vassar L. Eslinger has become affiliated with Johnson, Lane, Space & Co., Inc., Citizens & Southern National Bank Building.

Fabian Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Fernand H. Pincoffs has been added to the staff of Fabian & Co., 9500 Santa Monica Boulevard.

With Central Republic

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Robert H. Arndt is now affiliated with Central Republic Company, Rand Tower.

With Mannheimer-Egan

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, MINN.—William J. Towle is with Mannheimer-Egan, Inc., First National Bank Building.

Continued from page 5

Observations . . .

interest issues come-what-may in the law. Caution against supposing that there has been any change in "the basic philosophy of trusteeship," and affirmation of the conviction that trustee-human nature will never change enough to turn fiduciaries into "gentlemen adventurers," were most convincingly expressed in an epochal talk by Louis S. Headley, President of the First Trust Company of St. Paul, before the Midwinter Trust Conference of the American Bankers Association, Feb. 8, 1950. Also:

"It is not enough that the trustee in investing trust funds use his care and skill. A man of business in investing his own funds, or even a speculator, may use a high degree of care and skill in attempting to increase the value of his estate. In so doing, however, he may take risks which a trustee is not justified in taking. . . . In other words a trustee must be not merely careful and skillful, but also cautious." (Scott on Trusts, sec. 227/3) will no doubt still continue as the trustee's self-imposed rule of conduct.

Psychological Deterrents

But even to a greater extent than in the case of the above-cited factors, is it impossible to make a blue-printed prognosis of the psychological influences? Fiduciaries are subject to the behavior quirks of other investors—and this particularly includes the **timing** of purchases. It is being predicted that if on July 1 the market should remain at its present historically high-area level of 212, trust managers will be hesitant about switching to equities. This writer would add that even greater inhibition would rule despite a market fall to greater values at 160 or so. Illogical as such trustee behavior might be deemed, the sobering result of a major market decline in reminding of the "danger" of capital shrinkage in common stockholding, was demonstrated clearly by the opposition to Sumner Pike's proposals to permit life insurance companies to hold equities in the New York State hearings in October, 1941. In any event after a market break switching would to a greater extent go into ineligible bonds and the safer looking preferred than to common.

It seems to this writer that, consistent with habitual investor foibles, presently uninvested trustees will extensively add common stocks not at the current market levels, nor after a sharp drop, but rather in a buyers' panic after an advance to 240 or so—without regard to intrinsic values.

Stimulating Influences

Offsetting these potential subtractions from our $1.2 billion estimated total available for stocks, conversely there are some elements making for enlargement thereof.

It is estimated that of the $10 billion in New York's non-legal trusts, only about 35%, or $3.5 billion, is now invested in ineligible securities. It can be assumed that the enactment of the *Prudent Man* principle will encourage New York fiduciaries to transfer at least some portion of the remaining $6.5 billion to ineligible issues including common stocks.

In the case of the legal trusts, post-July switching into preferred and common stocks may be stimulated by any past declines in long-held bondholdings or by souring of their capital value, and the resultant desire to recoup the losses through equities.

Encouragement to other Investment Managers

The increased *Prudent Man* validation would also, by a sort of osmosis process, have a gradual relaxing effect on the managers of insurance company portfolios. Fire insurance companies, which are permitted to buy common and preferred stocks in all States, are presently invested therein only to the extent of 18% in the former, and 8% in the latter. With the increased respectability now conferred on equity shares, fire insurance managers can now be expected to join the hitherto more staid fiduciaries in unashamedly adding them to their portfolios. Such shift to equities will be furthered by the federal income tax provisions differentiating in favor of equity over bond holdings.

The Life Insurance Potential

In only 28 States are life insurance companies definitely authorized to hold common stocks, with 5 additional States appearing to have doubtful permission. Even among the 28, 3 or 4 are confined to bank stocks. In New York the life companies may buy preferreds but no common.

Under these existing legal limitations combined with managerial voluntary inhibitions against equities, only a total of $280 million of the nation's life companies' portfolios of $52 billion (or 0.6%) is now invested in stocks. So the room for expansion of equity-holding in this area over the long-term is assuredly considerable.

The *Prudent Man* legitimization of the common stock will also have postponed effects on the investing policies of other institutions. Already this week definite proposals have been made to permit New York and Massachusetts savings banks to buy some equities. And the managers of mutual funds are undoubtedly given a fillip toward greater proportioning of their assets in common stocks.

* * *

Thus we realize that the quantitative stock market effect of New York's imminent advent to Prudent Man-ishness can only be the merest "guess-estimate." (As demonstrated here last week, the qualitative result of conventional Blue Chip-ism in the choice of stocks can quite confidently be assumed.) **With this proviso, we can conclude that there is no basis for assuming that on July 1 next, there will be a major or measurable degree of buying channeled into the stock market, sufficient to exert a major short-term influence. Over the long term, however, New York's legislated stimulant to the common stock's respectability is to be interpreted as a market influence of major importance—a milestone on the road to the equity share's secular legitimization.**

In a subsequent article we will analyze the effects of the spreading Prudent Man-ism on the capital market situation, with special reference to the need for adequate equity financing.

Says Budget Can Be Balanced

Calling for a balanced budget now, Dr. Benjamin H. Beckhart, Professor of Banking at Columbia University, warned in an address on April 20 that this nation's failure to follow a sound fiscal policy will weaken its domestic economy and undermine its leadership abroad.

Dr. B. H. Beckhart

Reduction in expenditures is the principal means of balancing the budget, he told the 10th Annual Forum on Current Economic and Social Trends sponsored by the New York Chapter, Chartered Life Underwriters at Town Hall, New York City. He also recommended a reform of the Federal tax structure, with "more rather than less reliance upon excise taxes."

The Columbia professor maintained that expenditures can be reduced "without impairing or curtailing the basic efficiency of government. As citizens we must favor economy — specifically as well as generally—and be willing to see those expenditures eliminated which, even though they concern our own self interest, are not essential from the point of view of the whole economy."

The so-called "open-end" programs of the Federal government must be brought under control, Dr. Beckhart asserted. These programs concern primarily, he explained, the agricultural price support program, The Veterans Bureau and the Federal National Mortgage Association's mortgage purchases.

Agricultural expenses, he declared, could be reduced three-quarters to one billion dollars by the adoption of a flexible in place of a rigid price support program and by a curtailment of other agricultural subsidies.

At least $800,000,000 could be saved by restoring the veterans' program to its original purpose of assisting veterans in their readjustment to civilian life.

And, by ending the FNMA's activities, expenditures would be slashed by close to one billion dollars.

"Public works expenditures," the economist continued, "need to be curtailed by at least one billion dollars and national defense and foreign aid together could doubtless decline by another billion dollars. By eliminating the proposed extension of the social welfare legislation and aid to education, and by terminating the lending authority of the Reconstruction Finance Corporation, about $700,000,000 could be saved."

He asserted that reforming the tax structure to place greater reliance on excise taxes "would give greater stability to tax revenues. The present unduly large dependence upon the individual and corporate income taxes results in inordinately large flexibility in the tax revenues."

Concluding, Dr. Beckhart said: "Reduction of government expenditures by an amount necessary not only to balance the budget but in this, a period of high level activity, to create a surplus will give proof that we as a people, are capable of self-discipline, are willing to eliminate waste in government, and are ready to challenge the vested interests that fatten at the public trough."

Miss Rasmussen Now Hugh Long Officer

Miss Wilbertha Rasmussen ha been appointed Assistant Vice-President of Hugh W. Long an Company, 48 Wall Street, New York City, a leading mutual fu sponsor, it was announced L Hugh W. Long, President of t. company.

A former newspaper reporte teacher and retail investme cealer, Miss Rasmussen has written and devised many of t unique sales, educational and direct-mail folders which the Lo Company offers to its dealer an broker associates for presentatio to the investing public. She ha been with Hugh W. Long anc Company for more than five years as a member of its home-office sales staff.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Coleman C. Walker Richard Shields

S. Sloan Colt, President of **Bankers Trust Company of New York,** announced on April 20 the election of Coleman C. Walker, Vice-President of the **Wachovia Bank & Trust Co. of Winston-Salem, N. C.,** and Richard Shields, former Assistant Vice-President of Bankers Trust, as Vice-Presidents. At the same time, Mr. Colt announced the election of Robert H. Brome, who is at present Assistant Counsel of the **Federal Reserve Bank of New York,** and Everett Orr, Jr., Assistant Treasurer of Bankers Trust, as Assistant Vice-Presidents. Messrs. Shields and Orr will continue their present assignments in the Investment Research Division of the Personal Trust Department. Mr. Walker will be assigned to the Banking Department on June 1, and Mr. Brome will assume the duties of resident counsel on May 1. Mr. Walker attended the University of Virginia and was a Rhodes Scholar at Oxford University. He received his B.A. from both universities and M.A. from the University of Virginia. From 1927 to 1932 he was connected with Dillon, Read & Co. and since 1932 has served with the Wachovia Bank & Trust Co. Mr. Brome graduated from Whitman College, Walla Walla, Wash., and received his law degree from Columbia University. He has been with the Federal Reserve Bank since 1936, and is a member of the New York State Bar Association, the Wyoming State Bar Association, and the American Foreign Law Association. Mr. Shields has been with Bankers Trust since 1931, while Mr. Orr joined the staff in 1934.

* * *

The Chase Bank, overseas affiliate of **The Chase National Bank, of New York** will close its branch in Shanghai, China. It is announced that instructions have been cabled to Julius J. Thomson, the only American member of the staff remaining in Shanghai to wind up the comparatively small amount of business there as promptly as possible.

Herbert Abraham, President of The Ruberoid Corporation, and Morehead Patterson, Chairman and President of the American Machine & Foundry Company, have been appointed members of the advisory committee of the Chase National Bank's Forty-Second Street Branch, 60 East 42nd Street, the bank announces.

* * *

William J. H. Crossen was appointed Assistant Treasurer of **Central Hanover Bank and Trust Company of New York** at a regular meeting of the Executive Committee of the Board of Trustees held this week.

* * *

The election of Harland C. Forbes to the Board of Trustees of **The New York Savings Bank** at

Harland C. Forbes

8th Avenue and 14th Street, New York was announced on April 18 by the President of the bank, Richard L. Maloney, Jr. Mr. Forbes is Executive Vice-President and Trustee of the Consolidated Edison Co. of New York, Inc.

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Appointment of Robert B. Menapace as Vice-President and of Ralph E. Kimpel as Second Vice-President of the **Guaranty Trust Company of New York** is announced by J. Luther Cleveland, Chairman of the Board. Both are foreign department officers associated with the bank's Latin American division. Mr. Menapace, formerly a Second Vice-President, has been with the Guaranty since 1919. During World War II he served for three years in the Army in the Mediterranean Theatre, becoming senior finance officer of the Fifth Army, with the rank of Colonel. Mr. Menapace is a director of the American Brazilian Association and Vice-Chairman of the Chilean American Association. Mr. Kimpel was Assistant Manager of the foreign department before his present appointment and has been associated with the company since 1916. He is a member of the Executive Committee of the Venezuelen Chamber of Commerce of the United States and a director of the Peruvian-American Association.

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The 14th annual dinner of the Quarter Century Club of **The National City Bank of New York** and **City Bank Farmers Trust Company** was held on April 20 at the Hotel Astor. On the dais, as hosts, were Wm. Gage Brady, Jr., Chairman of the Board; W. Randolph Burgess, Chairman of the Executive Committee of the bank and Chairman of the Board of the trust company; Howard C. Shepard, President, National City Bank, and Lindsay Bradford, President of City Bank Farmers Trust Company. Total membership of Quarter Century Club, including overseas branches, is 1,668. New members received into the club during the past year number 175. Walter J. Brotherton was Chairman of the Quarter Century Club Committee, consisting of Edward F. Mitchell, Harry P. Wehr and Randolph S. Merrill.

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The Board of Governors of the Federal Reserve System announced on April 25 the appointment of Robert P. Patterson, of Cold Spring, N. Y., as a Class C director of the **Federal Reserve Bank of New York** for the unexpired portion of the term ending Dec. 31, 1952. Mr. Patterson, who is a member of the law firm of Patterson, Belknap & Webb, 1 Wall Street, New York, was a Judge of the United States District Court for the Southern District of New York from 1930 until 1939, when he was appointed a Judge of the United States Circuit Court of Appeals for the Second Circuit. In 1940 he resigned from his judicial office to accept appointment as Assistant Secretary of War. He became Under Secretary later in 1940, and served in that capacity until September, 1945, when he was appointed Secretary of War. In July 1947, he resigned to resume the private practice of law.

* * *

The capital of the **Peoples National Bank of Lynbrook, New York,** has been increased from $280,000 to $315,000 by the sale of $35,000 of new stock. The enlarged capital became effective April 11.

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H. Vernon Leitch, Trust Officer of the **Baltimore National Bank of Baltimore, Md.** died on April 23. He was 58 years of age. According to the Baltimore "Sun" he had been in the banking business for the last 35 years. The same paper states: "He joined the trust department of the old Baltimore Trust Co. following his graduation. When the present organization of the Baltimore National Bank was made he continued his trust work with the new group."

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The office of the **Peoples State Bank Company of Lisbon, Ohio,** (common stock $75,000) is now operated as a branch of the **Farmers National Bank of Salem, Ohio** (capital $400,000), following the consolidation of the Peoples State with the Farmers National under the charter and title of the latter effective April 10. The Office of the Comptroller of the Currency reports that the initial capital stock of the consolidated bank will be $500,000, divided into 20,000 shares of common stock of the par value of $25 each. The initial surplus will be $500,000, with initial undivided profits and reserves of not less than $150,000.

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An increase in the capital of the **Coral Gables First National Bank, of Coral Gables, Fla.,** from $300,000 to $600,000 is announced by the Office of the Comptroller of the Currency, effective April 20. Of the additional $300,000, $150,000 represented a stock dividend, while the further $150,000 increase was brought about by the sale of new stock.

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L. M. Giannini, President of **Bank of America National Trust & Savings Association of San Francisco,** announces the elevation of Y. J. Johnson to status of Vice-President and Manager of the bank's Tokyo branch. Mr. Johnson has been manager of the branch in the Japanese capital since 1947. Following his graduation from the University of Georgia in 1928, Mr. Johnson started in the International Banking department of the bank at San Francisco. His career includes service with financial institutions in Manila, Hankow, Shanghai, Hong Kong and Calcutta and Bombay.

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On April 5 the **First National Bank of San Mateo County** at **Redwood City, Calif.,** increased its capital from $200,000 to $300,000 through a stock dividend of $100,000.

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Two new appointments to the executive board of the Hughson office of the **Central Valley Bank of California,** head office **Richmond, Calif.,** were announced on April 11 by Charles P. Partridge, President. They are Robert E. Lanctot and Elmer E. Owen. Mr. Lanctot is a member of the law firm of Shearer & Thomas, San Francisco. He received his law degree at the University of California and, during the war, was associated with the Federal Bureau of Investigation. Mr. Owen is a member of a pioneer California family. His business background includes 25 years with the Hughson Condensory and its successor, Dairymaid Creameries.

* * *

At a meeting of the board of directors of **The Canadian Bank of Commerce,** head office **Toronto,** held on April 21, Rhys M. Fale of Windsor, Ontario, President of the Ford Motor Company of Canada, Ltd., was elected a director of the bank.

* * *

William Allan Mather, C. E., President of the Canadian Pacific Railway Company, was on April 25 appointed a director of the **Bank of Montreal** (head office, Montreal). Mr. Mather who joined Canadian Pacific Railway upon graduation from McGill University, became Assistant to the Vice-President, Montreal in 1933. He was successively General Manager and Vice-President in charge of western lines, from 1934 until 1947, when he took charge of the prairie region. Two years ago he was elected President. Mr. Mather is also Chairman of Canadian Pacific Steamships and Canadian Pacific Airlines. He is a director of the Great West Life Assurance Co. and of the Calgary and Edmonton Corp.

William A. Mather

Merrill Foundation Makes Grant to Inst. of World Affairs

The Institute of World Affairs of the New School for Social Research has been granted $10,000 by the Merrill Foundation for Advancement of Financial Knowledge to support a research project on the problems of financing world economic development, it was announced by Winthrop H. Smith, President of the Foundation. The study will be conducted under the direction of Dr. Adolph Lowe, Director of the Institute of World Affairs.

This is the first research project sponsored by the Foundation in the field of international economic relations and is designed to explore some of the problems raised by President Truman's Point IV program, Mr. Smith said. Among the particular questions to be explored by Dr. Lowe are: Savings and capital formation in undeveloped areas, means of reducing risk in international investment, criteria for a minimum rate of economic development and the economic problems raised by the transition of peoples from colonial to autonomous status.

With Lagemann & Son

(Special to The Financial Chronicle)

QUINCY, ILL. — William E. Wagy is with Lagemann & Son, Illinois National Bank Building.

Joins Wallace Bouden

(Special to The Financial Chronicle)

NEW ORLEANS, LA.—W. Hudson Dick has joined the staff of Wallace Bouden, Balter Building.

Lincoln McRae Adds

(Special to The Financial Chronicle)

ROCKLAND, ME. — George B. Parsons has joined the staff of Lincoln E. McRae, 449 Main Street.

World Bank Income Approaches $10 Million

Institution now has accumulated surplus of over $23 million together with special reserve in excess of $12 million. Loan commitments, as of March 31, amount to $737,706,983.

The International Bank for Reconstruction and Development has reported a net income for the nine months ended March 31, 1950, of $9,856,856. The net income for the first three-quarters of the preceding fiscal year amounted to $7,383,006.

Gross income, exclusive of $4,157,591, set aside in the Special Reserve, amounted to $18,798,663 for the nine-month period as compared with $15,611,704 for the same period in the preceding fiscal year. Expenses totaled $8,941,807, including $3,248,017 administrative expenses and $5,693,790 bond interest and other expenses. The redemption premium of $1,000,000 on the 10-year 2¼% bonds which were redeemed Feb. 17, and the premium of $559,000 received from the sale of $100,000,000 2% serial bonds on Jan. 25, were taken into the income account for this period.

As of March 31, 1950, the Bank had an accumulated excess of income over expenses of $23,497,950, and the Special Reserve as of that date amounted to $12,231,732.

The Bank's statement noted that Poland withdrew as a member on March 14. The 1,250 shares held by Poland will be repurchased by the Bank at the value shown on the books on the date of withdrawal but no payment may be paid to Poland until six months after the date of withdrawal. The Articles of Agreement further provide that a withdrawing member shall remain liable for its contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member are outstanding.

Total loan commitments made by the Bank as of March 31 amounted to $744,145,000. Because of cancellations, however, the actual amount of commitments had been reduced to $737,706,983.

Disbursements on loans during the quarter ended March 31 amounted to $27,973,536, bringing the total as of that date to $594,986,266, leaving $130,175,717 to be disbursed.

R. C. Kemper, Chairman Of United Utilities

KANSAS CITY, MO. — R. C. Kemper, President of City National Bank & Trust Co. of Kansas City, Mo., has been elected Chairman of the Board of United Utilities, Inc., replacing Henry J. Allen who died recently. United Utilities is the third largest telephone system in the United States next to the Bell System.

Will There Be New Sterling-Dollar Discussions?

By PAUL EINZIG

Dr. Einzig foresees renewal of discussions between British and U. S. Government officials regarding further alleviation of the Sterling-Dollar gap, but is not optimistic that a satisfactory formula will be found to remedy situation. Suggests U. S. assume burden of defense of South Eastern Asia against Communism as aid in remedying dollar shortage.

LONDON, ENG.—There has been some talk lately about the possibility of new discussions between the British and U. S. Governments on Britain's dollar problem. It is considered probable that before many months Sir Stafford Cripps will meet Mr. Snyder to resume the discussions initiated in Washington in September, last. It would be idle to deny that the sanguine hopes attached to the outcome of those discussions have failed to materialize. The joint statement issued at the conclusion of the Washington meeting foreshadowed interesting developments in various directions. In reality, the only concrete result that emerged from the Washington meeting was the announcement of the devaluation of sterling on September 18. And there was no need for Sir Stafford Cripps to go to Washington in order devalue sterling.

Dr. Paul Einzig

After the conclusion of the Washington meeting negotiations continued on an official level, but so far their result has been utterly disappointing. No concrete progress has been achieved in any direction. In particular, there are no indications of any progress towards a solution of the formidable problem of wartime sterling balances. Nor did hopes of measures to encourage the import of British and European goods into the United States materialize so far. It is true the United States Government has just announced its intention to offer tariff concessions on a number of goods, but it was made plain that this would only be done on a basis of reciprocity in return for corresponding reductions of tariff on American goods by the countries concerned. Reasonable as this is from the point of view of American business interests, it does not help towards the solution of the dollar shortage since any increase of American imports would be offset by an increase of American exports. Beyond doubt, an increase in the volume of trade between the United States and Europe without an increase of the dollar deficit is in itself a good thing. It would not help, however, towards the elimination of the dollar gap.

Admittedly, it is very difficult to find a formula which, in addition to being helpful in that direction, would also be acceptable to the United States. The sharp reaction to the British effort to save dollars by cutting down dollar oil imports illustrates the difficulty that any effective measure of dollar economy is liable to encounter. It is particularly difficult to find a formula under which the United States could assist in the solution of the problem of sterling balances without at the same time aggravating Britain's difficulties in the long run by displacing British trade in the markets of India and other countries holding sterling balances.

In recent weeks a new suggestion had a certain amount of publicity in Britain and in France. It is that the United States should share the burden of the defense of South Eastern Asia. At present that burden falls on the shoulders of Britain and France, and there are indications that the sacrifices needed for preventing French Indo-China and Malaya from falling under communist domination are likely to increase in the near future. It is argued that the United States are interested in safeguarding these countries against communist conquest and that it would not be unreasonable, therefore, if American financial assistance were forthcoming to facilitate the task of Britain and France.

The principle that would be involved in American assistance in South Eastern Asia is already actually in operation in Europe. It was first applied in Western Germany where some years ago the United States decided to relieve Britain of a large part of her burden as joint occupying power. The principle found further application more recently in the North Atlantic Pact. Should the United States be willing to contribute a reasonable share of the cost of defending Malaya and French Indo-China it would go a long way towards providing a temporary solution of the dollar problem of Britain and France.

As the problem involved is one of foreign policy, it should be discussed between the State Department, the Foreign Office and the French Foreign Ministry. In the absence of effective American assistance it would be impossible to expect the forthcoming Sidney Conference of Economic Aid to South-Eastern Europe to produce any substantial results. It has become fashionable to suggest that the only effective way of preventing communist penetration in South Eastern Asia would be through a substantial improvement of the standard of living in that part of the world. Beyond doubt, that aim must must be borne in mind. It would be absurd to think, however, that even a country with the immense resources of the United States could possibly do much in the near future to improve the admittedly very low standard of living of hundreds of millions of people in Asia. China was conquered by communism not because of the low standard of living of her people, but because the Chinese communists were better organized, better led and more effectively assisted than the Nationalists. A reasonable amount of American financial assistance should go a long way towards enabling Britain and France to organize more effectively the costly defenses of Malaya and Indo-China. It would kill two birds with one stone, since it would contribute towards the replenishment of the British and French dollar reserves.

Los Angeles Exch. Tour Scheduled

LOS ANGELES, CALIF. — A group of 50 prominent women, representing virtually every major women's organization in Southern California, will meet with officials of the Los Angeles Stock Exchange and the Women's Division of the Los Angeles Chamber of Commerce on Wednesday, May 3 for a tour of the Stock Exchange, Grace Stoermer, Past President and Chairman of the Finance Program of the Women's Division announced. The tour will be followed by luncheon in the Sunset Room of the California Club.

Henri de La Chapelle, Chairman of the Exchange group working with the Women's Division of the Chamber to arrange the tour and luncheon said the event is planned to create interest among leading Southland organizations in the forthcoming community investment course, to be sponsored by the two groups in conjunction with the Los Angeles High School adult education program.

On the calendar for fall the lecture series is to be held in the auditorium of the Los Angeles High School and will be open to the general public, according to de La Chapelle. The course will be designed, he said, to define the role of investment in our American economy and offer assistance in the personal investment planning of individuals and families.

Texas Group of IBA Annual Convention

DALLAS, TEX. — The Texas Group of the Investment Bankers Association will hold its annual convention in San Antonio May 4 and 5. The schedule for the convention is as follows:

Wednesday (May 3) — Western barbecue at Lone Star Brewery. Informal. 7:30 p.m.

Thursday (May 4)—Morning—Featured speakers: Albert T. Armitage, Coffin & Burr, Inc., Boston, President of IBA, Hon. Harry A. McDonald, Chairman of SEC. Luncheon — Featured speaker: Francis Adams Truslow, President of New York Curb Exchange. Afternoon—Sightseeing trips or recreational activities, golf, tennis and swimming. Evening—Cocktails, dinner and dancing at La Villita. Informal. Boats leave Plaza Hotel 6:30 p.m.

Friday (May 5) — Morning — Business session, report of Nominating Committee and election of officers and Executive Committee. Luncheon—Buffet at San Antonio Country Club. Afternoon—Canasta party for the ladies with prizes. Golf tournament for the men with prizes. Evening—Cocktail party and reception in honor of Mr. Armitage, Plaza Hotel Roof. Formal.

A. Strauss to Join Joseph Faroll & Co.

Abraham Strauss, President of Strauss Bros., Inc., will dissolve his firm about May 15 and will become associated with Joseph Faroll & Co., 29 Broadway, New York City, members of the New York Stock Exchange, to organize an unlisted security department.

Abraham Strauss

Mutual Funds

By ROBERT R. RICH

Gas Fund Reports Legislative Confusion

Colonial Associates, in its bi-weekly James Orr letter, reported the following complexities of gas industry regulation and the resultant uncertainty about the future.

The after dinner remarks of the principal speaker at a gas company executives' dinner concluded with the following:

"Producers and gatherers are finding, and I am sure will continue to find, strong incentives to search out new sources of natural gas and to sell their gas in interstate commerce. I believe the production and sale of natural gas will continue to grow rapidly, to the benefit of consumers and of all the businessmen concerned with serving them.

"Actually, the foregoing words, which recognize natural gas as a premium fuel with an advantageous competitive position and an expanding market, are contained in President Truman's rather mild veto message of the Kerr bill. There seems to be complete agreement that a gas reserve is a valuable asset. Owning natural gas reserves is just like owning money in the bank.

Gas Act Confusing

"There has been growing confusion as to the meaning of the Natural Gas Act of 1938 and the extent of the powers of the FPC under the act. The Commissioners themselves have been neither unanimous nor consistent in their interpretations of the act, and there has been a lack of clear-cut Supreme Court decisions. The Kerr bill was an attempt to clarify the act so as to specifically exclude from regulation independent producers and gatherers of natural gas. The veto, therefore, leaves us as before in a state of uncertainty. The FPC and the industry will have to feel their way along. There is a serious question how far, if at all, the Commission can go under the act in regulating field prices of gas. Before the situation is clarified, we will undoubtedly go through a long period of adjustment and readjustment, involving complex court decisions, issues as to states' rights, proposed regulation of competing fuels, and a host of other arguments, some of which may well be more emotional than rational.

"From a sample of opinion in the natural gas industry, it seems clear that many of the owners, particularly oil companies, of the larger gas fields not now under contract will continue to withhold their gas from the pipe line market. As a result of uncertainty as to pipe line sales, we may well find stimulation of non-fuel uses of gas, particularly its use as a raw material in the manufacture of plastics, fertilizers, carbon black and other petro-chemicals.

"Whatever the available supply, it is certain that the demand for natural gas will continue to grow. It may thus develop that political representatives of the northern consuming states, who were most vociferous in their opposition to the Kerr bill, have thrown a boomerang. Present and potential consumers will continue to demand more and more gas, but it is possible that they will not be able to find adequate supplies at present prices.

"The veto is a new political development in the industry. However, it does not directly affect pipe line or distribution companies which have already arranged for a supply of gas for their present and immediately prospective load. For example, Tennessee Gas Transmission and Transcontinental Gas Pipe Line need only obtain an FPC certificate to serve New England. The supply of gas for this new territory is already under firm contracts.

"The production of natural gas is now back in *status quo* which is, unfortunately, a position of uncertainty. However, at present field prices, the production of gas is a profitable business, the product is competitive with other fuels, and the industry is growing rapidly."

Taxation Favorable to Fire Insurance Companies

In view of articles appearing in newspapers to the effect that Congress is considering an income tax, possibly retroactive, on life insurance companies, we have had a number of queries as to how this will affect the fire insurance companies in whose stocks **Insurance Group shares** provides ownership. The answer is that the **proposed taxes will not apply in any way to fire insurance companies and thus will not in any way affect them.**

The tax which Congress is considering concerns solely life insurance companies, in that the formula for taxing life insurance companies in 1946 has proved unworkable and thus they have paid no taxes on their investment income, which includes interest, dividends and rents. The bill under consideration would tax such income for the years 1949 and 1950.

Unlike life insurance companies, fire insurance companies have been and are subject to the same rate of taxation as are industrial companies. However, while subject to the same tax rates as industrial companies, the amount of taxes paid by fire insurance companies is invariably lower, in that 85% of dividends received by a corporation are tax exempt, and, unlike industrial companies in general, a very substantial amount of the earnings of fire insurance companies comes from the dividends they receive on their very large investments in common stocks.

Delaware Fund Increases Shares By 500,000

At a meeting of the stockholders of Delaware Fund, Inc., the stockholders authorized an increase in the company's shares from 1,000,000 to 1,500,000. This was necessitated by the present outlook for sales of the company's shares, which have been proceeding at higher levels than at any time in the past.

Andrew B. Young, Esq., of Stradley, Ronon, Stevens & Young, was elected a member of the Board of Directors, and all other directors were re-elected.

Whitehall Fund Reports

The asset value of the Capital Stock of Whitehall Fund on March 31, 1950, was $17.09. This compares with an asset value of $16.66 at the end of 1949 and $15 on March 31, 1947, the date of the initial public offering.

As will be noted from the following figures, net assets at the end of the quarter were $1,239,192 compared with $1,062,838 at the end of 1949. This was due not only to the increase in the net asset value per share, but also to the continued growth of the shares outstanding from 63,790 to 72,494.

Chemical Fund Net Assets Rise to $15.26 per Share

Net assets of Chemical Fund, Inc., on March 31, 1950, totaled $29,955,225, represented by 1,962,368 outstanding shares compared with $28,407,019 on Dec. 31, 1949, represented by 1,894,000 shares, according to the report to stockholders for the March quarter of 1950.

Net asset value on March 31, 1950, taking the portfolio at market value, was $15.26 per share compared with $14.99 per share three months earlier.

Net income of the fund for the first three months of 1950 totaled $233,715, exclusive of gain or loss on sales of investments. Net income for the comparable period of 1949 amounted to $190,648.

In the report, F. Eberstadt, President of the fund, notes that it is too early to predict the course of chemical earnings and dividends for the full year 1950, but current operations indicate continuance of the growth factors which have been characteristic of this industry.

Commonwealth Assets Rise, Shares Up 24.3%

On March 31, 1950, Commonwealth's net assets were $14,700,462. As of Dec. 31, 1949, the net assets of the company were $11,623,115, thus showing an increase of $3,077,347 for the first quarter of 1950.

During this same period, shares outstanding increased by 24.3%, to 2,525,584 on March 31, 1950.

Fund Files 100,000 Shares

Pell, de Vegh Mutual Fund, Inc., New York City, on April 20 filed with the Securities and Exchange Commission 100,000 shares of capital stock. No underwriter.

Bond Club of Toledo Elects Officers

TOLEDO, OHIO—At the annual meeting held at the Toledo Club, March 30, 1950, the Bond Club of Toledo elected the following officers: E. M. Carstensen of Ryan, Sutherland & Co., President; Wm. J. Smith of Bell & Beckwith, Vice-President; Guerdon D. Smith of Collin, Norton & Co., Secretary, and W. H. Schliesser of Stranahan, Harris & Co., Treasurer.

The Board of Governors are Norman J. Fields of Braun, Bosworth & Co.; Russel E. Keier of Goshia & Co.; and Calvin M. Yeasting of Ford R. Weber & Co.

Chairmen of the following committees are: entertainment—Paul A. Meinert of Goshia & Co.; finance—Tom Cox of McDonald & Co.; legislation—Frank E. Keene of Stranahan, Harris & Co.; membership—William Milne of Otis & Co.

The 16th annual outing of the Bond Club will be held at Iverness Club, Friday, June 16, preceded by a cocktail party and buffet dinner, Thursday evening, June 15 at the Commodore Perry Hotel, in honor of the out-of-town guests.

Gerard Alberts With Wm. E. Pollock & Co.

Gerard H. Alberts has joined the sales department of the New York office of Wm. E. Pollock & Co., Inc., 20 Pine Street, New York City.

Alexander Bell & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Alexander C. Bell is forming Alexander C. Bell & Co. with offices at 519 California Street to engage in a securities business. Mr. Bell was formerly a member of the dissolved firm of Bell & Davis.

Detroit Stock Exchange Change of Trading Hours

DETROIT, MICH. — Commencing at the opening of business on Monday, May 1, 1950, and for the duration of Daylight Saving Time, the Exchange trading session will be from 9:00 o'clock a.m. until 2:15 p.m., except on Saturdays when the hours will be from 9:00 o'clock a.m. to 11:15 o'clock a.m. Clearing hour will remain the same—12 o'clock noon.

The Governing Committee of the Detroit Stock Exchange has approved the closing of the Exchange for trading on all Saturdays during the months of June, July, August and September, 1950.

Davis & Barnett

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — John L. Davis and Hamilton Barnett are forming Davis and Barnett with offices in the Russ Building to engage in a securities business. Mr. Davis was formerly a member of Bell & Davis, which has been dissolved.

Coffin & Wimple Opens

(Special to THE FINANCIAL CHRONICLE)

BANGOR, ME.—Coffin & Wimple, Inc., has been formed with offices at 142 Broad Street to engage in the securities business. Officers are Merle L. Coffin, President; Millard F. Coffin, Treasurer; Frederick B. Dodd is a director of the firm.

John A. Dawson Admits

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Arthur W. Alstrin has been admitted to partnership in John A. Dawson & Co., 1 North LaSalle Street. He has been with the firm for some time.

Robert P. Myers With C. H. Reiter & Co.

Robert P. Myers

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Robert P. Myers has become associated with C. H. Reiter & Co., Union Trust Building, members of the Cincinnati Stock Exchange. Mr. Myers was formerly Vice-President of H. B. Cohle & Co.

Joseph Overton Is With T. H. Jones

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Joseph A. Overton has become associated with T. H. Jones & Co., Union Commerce Building, members of the Midwest Stock Exchange. Mr. Jones was formerly manager of the municipal bond department for the National City Bank of Cleveland. In the past he was in the investment business in New York City.

John Alspach Joins John B. Joyce Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO — John H. Alspach has become associated with John B. Joyce & Co., Huntington Bank Building, as Vice-President. Mr. Alspach was formerly Secretary and Treasurer of Fullerton & Co., in charge of the trading department.

Cantor, Fitzgerald Adds

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Joseph B. Scannell has joined the staff of Cantor, Fitzgerald & Co., Inc., 211 South Beverly Drive. In the past he was with King Merritt & Co.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Treasury Secretary Snyder's statement that large scale financing is not imminent together with decreased liquidation by the Central Banks allowed the government market to rally slightly from its depressed levels. The whole list gained some ground under the leadership of the intermediate term bank eligibles. Despite the opinion that prices could recede further, non-bank investors (other than the larger life insurance companies) are still interested in acquiring yield in rather sizable amounts. It seems as though more funds are coming into the market from these institutions, for investment, as quotations go down. The willingness and ability of these non-bank investors to absorb the securities being sold by Federal has helped to keep the market orderly.

The new financing is getting greater attention due to Secretary Snyder's recent statement with plenty of guesses still being made. It seems as though a 1¼% certificate or a 13-months 1¼% obligation is generally expected for the June certificates. As far as the other maturities are concerned, there is no particular agreement. It is evident that 1⅜s are in the running as well as 1¼s. For new money 1½% and 1⅝% are among the much discussed rates.

2.40% "FLOOR" IN DANGER?

The continued liquidation by Federal of long ineligible Treasuries is now creating considerable uncertainty and many holders of these securities are concerned as to whether the much-talked-of levels and yields will hold. The 2.40% yield basis which has been guessed in many quarters as the likely stopping point in the upward trend in yields of the long taps may not be the "floor" according to some followers of the money markets. They point out that the inflation psychology is still very strong and will probably not subside for some time hence. Also the speculative psychology in the equity markets continues to be gaining momentum, and while direct action could be taken by the authorities to halt this trend, there is evidently no desire yet to resort to such drastic measures. It might be that the inflationary psychology can be retarded by prevailing methods, and no doubt the authorities would like this to happen. It could be that the next important problem facing the economy in the not too distant future will be deflationary rather than inflationary.

Accordingly, it is reasoned by some that pressure will be kept on the money markets a while longer to combat inflationary tendencies because more drastic measures could have a very unfavorable effect upon the economy as a whole. This might mean, according to certain observers, that yields on long governments would not be held at the much discussed 2.40% basis.

PURCHASE OF "VICS" RECOMMENDED

While it is most difficult to attempt to master-mind the future policies of the monetary authorities, there are nonetheless certain astute followers of the government market who are inclined now to advise larger purchases of the Vics at current levels, and to step up acquisitions if prices should recede under pressure of liquidation by the authorities. If quotations should give more ground than has been expected, they believe more buyers will be attracted by the more favorable yields. Also the feeling seems to be growing that pressure on long government bond yields will not continue too much longer. It is being pointed out that if the inflation psychology and the speculative trend in the equity market is not dissipated in some measure by future economic developments, then direct action will most likely be taken. This should relieve some of the pressure of liquidation by the authorities in the government market.

The fact that the government market was pushed down by Federal's selling means they have the ability to stop the decline and they could even remove enough pressure to reverse the trend. The condition in the government market now is different from the last major decline, because at that time the selling initiative was with institutional liquidators and the Central Banks were on the defensive. Federal had to protect yields from going below specific levels, and they had to buy large amounts of securities which were being let out by the insurance companies and other holders of Treasury obligations. There was no way for the Central Banks to halt the liquidation at that time, except by a demonstration of their willingness and ability to take all the securities offered them in order to hold prices at pegged levels. At the present time the Central Banks can remove the selling pressure whenever they want to, and this will take place when economic conditions warrant it. This could bring about a very marked change in prices and yields of all Treasury obligations.

MARKET MOVEMENTS

During this interim period, when the money markets are waiting for the next financing operation, and liquidation by Federal is keeping prices on the defensive, much of the activity is accounted for by switches and swops. Shifts are being made between long and short ineligibles as well as from bank issues into the restricted obligations. Intermediate-term banks, especially the 2s of 1952/54 and the 1½s of 1955 have been moved about in sizable amounts. The 2¼s of 1956/59 and the 2½s of 1956/58 have also been swopped and switched in large volume. The partially-exempts have appeared in fair-sized lots, but they have found willing buyers. The longest bank issue continues to be in a class by itself, still holding aloof from the prevailing price trend of the market as a whole.

Joins Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

LEXINGTON, KY. — John G. Irvin is with Merrill Lynch, Pierce, Fenner & Beane, La Fayette Hotel Building.

With First Securities

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Jack T. Vinis is with First Securities Company of Chicago, 134 South La Salle Street.

World Trade and a Stable World

By HERBERT V. PROCHNOW*

Vice-President, First National Bank of Chicago

Midwest banker points out importance of maintaining our international trade and providing means for closing the dollar gap. Reviews proposals for remedying dollar shortage and though admitting problem is complicated, concludes the most acceptable solution is one that will provide for steadily expanding trade and higher living standards for all peoples. Advocates greater U. S. imports.

All trade is simply an exchange of goods and services. There is no economic mysticism about the fact that both the buyer and seller profit in trade. In the United States, it is a basic part of our economic philosophy. Great material benefits result where trade is permitted to develop without crippling restrictions. The relatively unhampered development of trade within the United States over the last 150 years into the vast, complex network it is today, has unquestionably been a major factor in giving our people the highest standard of living in the world.

H. V. Prochnow

Sometimes, however, men find it difficult to apply this sound philosophy across national boundaries. It is often argued that only the seller gains, and thus it is better for a nation to sell more goods than it buys. This is strange reasoning, especially for Americans, who know at first hand the mutual benefits of trade. International trade is simply the exchange of goods and services between peoples in different nations for their mutual gain. When international trade flourishes, it results in the efficient and sensible utilization of the resources of the world, and the energies, skills and imaginations of men everywhere. It helps to give the peoples of the world higher standards of living. It is a major influence for a stable and peaceful world.

Our machine civilization is pushing its way irresistibly into every corner of the world. The hand spinning wheels of India cannot forever compete in the same world with the power looms of England and North Carolina. The political pattern of the world may be following two major designs, but the economic life of the world is being steadily woven into a single pattern. If there is any economic certainty in an uncertain world, it is the certainty that our vast machine civilization—with all its roar and rush—will lead to greater and greater world trade. Obstacles may be placed in its path; exchange regulations and tariff restrictions may hamper the extension of a machine civilization temporarily; but the irresistible march of the automobile, tractor, airplane, railroad and every type of machine into the most isolated and sheltered parts of the world is historically inevitable. Unless we propose a major reorganization of America's economic life and propose in the next few years to reduce our manufacturing plant, sharply curtail our agricultural industry, and decrease our railroad, airplane and ocean transportation facilities, it is certain that our people will insist on developing still greater markets over the world.

Economic Importance of World Trade

The economic importance of world trade can be dramatically and practically illustrated by comparing the value of foreign trade to the national income of several nations. The United States, with a national income of $226 billion in 1948, had total exports of about $12.7 billion. In other words, the export trade of the United States was equal to about 6% of our national income. This figure is substantially higher in a number of nations, and explains the serious consideration attached to world trade in other parts of the world. For example, in Mexico in 1948 exports were equal to 11% of the national income; in Great Britain and Denmark about 17%; in the Netherlands 21%; in Australia 24%; and in Canada 25%. In Belgium, where the economic life of the nation is inexorably tied to world trade, exports were equal to almost one-third of the national income.

It is difficult for us fully to comprehend the significance of world trade because of the tremendous output of our industrial machine and the abundance of food, minerals, and natural resources within our boundaries. People living in other regions of the world, however, require no reorientation, no new perspective to understand the importance of trade between nations, for their general welfare, as well as the food necessary to sustain life daily, is dependent upon the continued flow of commodities between them and other peoples.

There is an almost irresistible temptation on an occasion of this kind to indulge simply in the easy retailing of platitudes regarding international trade, but in order that this discussion may not be mired in generalities we shall proceed directly to a practical consideration of current world trade problems.

Great Britain, the greatest single trading nation in the world, is a classic example of a nation whose existence is largely dependent on world trade. About 50 million people, nearly one third the population of the United States, live within an area of 68,000 square miles, or approximately the area of the State of Missouri. With coal and iron ore the principal natural resources, Great Britain has been obliged to import annually 20 million tons of foodstuffs, or almost 40% of the amount necessary to feed her millions of people, and vast amounts of raw materials for her processing industries; 2% of the population of the world living in Great Britain has accounted for about 20% of the trade of the entire world. Her per capita world trade has been roughly five times that of the United States.

In contrast, the chief rural industries of Australia are sheep raising, dairying and wheat. One-fourth of the world's supply of wool is produced in Australia, and, together with wheat and wheat flour, accounts for 58% of Australia's total exports.

Three-fourths of the people of Brazil are directly engaged in agriculture, which is the basis of the economy, and shipments of agricultural products account for 80% of her total exports.

The Netherlands and Belgium are very similar to Great Britain with a high density of population whose livelihood in a large meas-

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*An address by Mr. Prochnow before the Fifth Mississippi Valley World Trade Conference, New Orleans, La., April 20, 1950.

The Quest for Economic Stability

By J. MARVIN PETERSON*

Director of Research, Federal Reserve Bank of Minneapolis

Prescribing as foremost fundamental factors in economic stability: (1) a monetary mechanism capable of preventing prices rising in boom periods and falling in depressions; and (2) a unified fiscal and monetary program designed to eliminate business cycles, Federal Reserve Bank economist contends government monetary, fiscal and debt management policies designed to effect greater stability and growth in the economy are essential and are not incompatible with our democratic free enterprise system.

In order to circumscribe the broad topic assigned to me for discussion, I shall present four propositions. These propositions or assertions also serve to reveal the assumptions which underlie my analysis of the subject and to guide or outline my treatment of it.

J. Marvin Peterson

Proposition 1: The record of growth in production by United States industry over the past century has been phenomenal, yet it has been interrupted at times by bad panics and depressions which may be attributed in a significant degree to a faulty monetary system.

Proposition 2: The monetary mechanism of a country should not operate to permit an abnormal growth in the money supply in a period of rising prices, or allow a drastic decline in the money supply in a period of falling prices.

Proposition 3: Since the money supply is tied to the public debt, monetary policies, on the one hand, and fiscal policies, on the other, should present a unified program designed to reduce the amplitude of business cycles and at the same time to take account of the normal growth of the economy.

Proposition 4: Monetary, fiscal, and debt-management policies designed to effect greater stability and steady growth in the economy are compatible with our democratic, free-enterprise system, while a failure vigorously to pursue such policies may invite direct controls under which we might lose the freedoms we cherish.

I

The record of U. S. industry and agriculture throughout its history has been magnificent. Workers, enterprisers, and managers have fashioned abundant natural resources into a great variety of useful forms of goods. The volume of goods has increased at a faster rate than the growth of population, thereby giving the people a higher standard of living.

This magnificent record is blotted by several depressions and panics, some of which were severe and prolonged, while others were short and less severe. Each of the severe depressions was preceded by relatively great expansion in some sectors of the economy and excesses in speculation of one type or another. Some of the depressions followed financial crises.

After each depression our economy advanced to higher levels than before. Yet, while the economy recovered from each depression and many individuals and businesses recouped their losses, and while cold economics disposes of depressions as necessary correctives which operate through the elimination of the weak and the survival of the strong, panics and depressions and the booms which preceded them cruelly destroyed the solvency of some people and inequitably elevated the status of others.

Surely, efficiency of economic units, if that is the separator of the grain from the chaff — the good from the bad — is better tested under conditions of stability in the economic order than under conditions of instability. The life or death judgments of the market place are more sagacious when rendered under a stable price level than those rendered through the ordeal-by-fire procedures of booms and busts.

Unquestionably, a faulty monetary mechanism has been partially responsible for instability in the U. S. price level and for the great amplitude of the peaks and troughs of business cycles. The monetary mechanism has failed to give us a money supply about equal to the rate of growth in the economy. In some periods, the money supply increased at a faster rate than the normal or the actual growth of the economy, thereby inducing over-development or speculative excesses in some sectors of the economy. In other periods, a slight recession in business activity was followed by an abrupt and drastic decline in the money supply, thereby inducing panic conditions or a deep depression.

We have tried, during the monetary history of this country, several different methods of supplying the economy with money, including bimetallism, banknote issues, government note issues, the gold standard, and many mixtures of money-supply mechanisms. Thus far we have failed to find a mechanism that has automatically provided the economy with the "right" amount of money. Today, we may be as far away as ever from a solution to the "money problem."

II

One fact seems to me to stand out in the monetary history of the United States. It is that great harm is done when in a period of normal growth in the economy and relatively full employment the money supply is permitted greatly to increase. Also, that a drastic decline in the money supply in a period of less than normal growth in the economy and growing unemployment accentuates the downturn of the business cycle. Without an exception of which I am aware, our monetary system has gone into high gear creating new money in periods of prosperity and has gone into money-destroying reverse gear in periods of depression.

The explanation for this phenomenon is that bank deposits, the largest component of our money supply, rise as the banking system accumulates earning assets. Conversely, money is destroyed when the banking system loses earning assets.

This audience understands better than most groups that banking consists largely of debt-creation and debt-retirement and that the earning assets of banks are debts owed to banks while deposits are debts owed by banks to others. These two sets of debts rise and fall together. While both are rising, the money supply increases. While both are falling, the money supply decreases.

About 36 years ago many astute students of money matters thought that the money problem had been solved by attaching the issuance and retirement of currency to short-term commercial paper. This action, it was argued, would give the currency the desired degree of elasticity and the economy would not suffer from either a redundancy or shortage of currency. It was also thought that if all bank credit were commercial in character the economy would be furnished with the desired and desirable amount of bank credit.

Contrasting sharply with this dream of a well-nigh perfect currency is the widely-held present day view that a currency based on short-term commercial paper is just about the worst possible mechanism for currency issuance and retirement. These detractors of a currency secured by commercial paper point to the early 1930's when the volume of short-term commercial paper contracted sharply, making it extremely difficult for bankers to meet the withdrawal of deposits which accompanied the decline in the volume of "eligible" paper. This experience, and what preceded it, supports the view that a monetary system based on short-term private debt is, in fact, susceptible to booms and busts.

Perhaps you remember a bit better what happened in the early 30's than what happened in the late 20's. Bankers, lacking eligible paper, dumped their assets on the open market in a frantic and futile effort to gain cash to meet depositors' demand for currency. That effort was futile because the open market had no means of converting bank assets into cash. It could merely shift cash from one place to another—from one pocket or vault to another—and it did so at a great loss to the bank buying a part of the declining supply (relative to demand) of cash with its "unearning" assets. The loss is found, of course, in the increased purchasing power of currency-dollars or deposit-dollars over bank assets as that property was being dumped on the open market.

Thus we learned that the monetary factor can, as in 1931, turn an already sufficiently serious normal depression following the collapse of a speculative boom into the "real horrors." Within two years, 7,000 banks had failed and $15 billion of our money supply through credit contraction had been destroyed. Many of these bank failures and much of this drastic decline in the money supply might have been averted by vigorous central bank (Federal Reserve) action, both prior to and after the crash of '29, if such action had been unfettered by close, arbitrary ties to the commercial loan theory.

When, for any reason, the people develop a strong preference of money to hoard over holdings of property or deposit claims on banks, the only method available to the commercial banking system to get new currency needed to meet the claims of depositors is to convert their property holdings into new currency at a central bank.

Quite likely, short-term commercial paper arising from productive transactions will soon disappear in a period of general liquidation. Hence it becomes unavailable for the creation of new money. The *natural* liquidation of paper possessing *natural* liquidity *naturally* reduces the money supply in a period of *unnatural* general liquidation.

These considerations make significant the change in the Federal Reserve Act in 1935 under which any satisfactory asset is eligible as security for advances to member banks. This change promises a better chance, better to cope with panics and depressions in the future, provided we do not make too difficult the task of coping with depressions by allowing runaway booms to precede them.

The 1920's teach that too much money flowing into speculative channels is bad.

The 1930's teach that a declining money supply in a period of depression is bad.

The 1940's teach that a rising money supply in a period of boom is bad.

Money that is rapidly increasing in value, as well as currency that is rapidly decreasing in value, is *bad* money.

Henceforth, we should bend our efforts toward the formulation and implementation of monetary, credit and fiscal policies that contribute to give us a stable price level and *good* money.

III

Today the doors to our new-money coffers are not hinged tightly to short-term private debt. Neither are they hinged solely to "them thar' hills" which may or may not contain gold. Instead, they are hinged to the public debt. To be sure, means other than the presentation of government securities to the banking system may, under our present monetary system, bring forth new money. Yet, the purchase of government securities by the banking system provides the greatest potential source of new money.

The change from metals and short-term debt to public debt as the chief means of providing the economy with its money supply is revolutionary in character. Although this development might possibly provide a more stable base for our money supply than we have had before, it has created new problems of money management.

A source of trouble now is that non-bank holders of government securities might sell them to the banking system in periods of prosperity, thereby creating new money at a time when good money management would dictate no increase in the money supply. In good times the economy's money requirement should adequately be met by a rise in the velocity of money without an increase in its supply.

In bad times, the money supply under our present monetary system might suffer a harmful decline attributable to the drying-up of investment or loan opportunities and the consequent purchases by non-bank investors of government securities from the banking system, unless monetary, fiscal, and debt-management policies should be effective in offsetting any tendency toward a decline in the money supply and money velocity.

Clearly, our present monetary system, which is intimately connected with the public debt, requires very wisely conceived and wisely administered monetary, fiscal, and debt-management policies.

A good case can be made for a monetary policy under the direction of central banking institutions which would nudge the interest rate upward or downward as the guides to policy, such as the price level, dictate.

Fiscal policy should come to the aid of monetary policy by creating Treasury cash surpluses in periods of boom through cuts in expenditures or increases in tax receipts and by allowing deficits to develop in periods of recession. Most observers today agree that an annually balanced budget would greatly accentuate the ups and downs of business activity because it would require a decline in tax receipts or a rise in expenditures in periods of prosperity and a sharp rise in tax rates or a decline in expenditures in a period of recession.

A good case can also be made for the adoption of a plan whereby the sale of government securities to the banking system in a boom period does not increase free reserve balances and which, at the same time, does not seriously cripple the earning power of the commercial banks.

And all the while careful watch is kept over the money supply in the upturns and downturns of the business cycle in order that the monetary factor should not be allowed to accentuate the cycle, careful attention should be given the long-term trend. The ideal long-term trend is a rate of growth in output which is about the same as the rate of growth that has been achieved in the past, despite the ravages of business cycles.

Growth theory is probably more important than cycle theory. The former involves the formulation of guides to future action operating alongside actions designed to combat the cycle. We need guides for non-monetary, as well as for monetary policies. It seems reasonable to assert that a good guide to wage policy is that wage increases should not outstrip increases in output per man-hour and that a good guide to long-run monetary policy is that the money supply, allowing for retardation under rising prices and stimulation under falling prices, should increase in close relationship with the long-run growth in output.

Economic growth requires a stable high level of private business investment. To get it requires a favorable environment for such investment, including liberal depreciation and obsolescence allowances. Such liberal allowances, which are especially helpful when made in periods of slackening business activity, may help remove some of the timidity which businessmen feel toward continued new investment. As a consequence, higher rather than lower tax receipts might in the long run be garnered. Discarding old plant and equipment and replacing it with new should also give the public better quality products for its money, thereby assuring a continued high level of consumption expenditures, assuming a rather great degree of competition in market places, rather than monopolistic conditions.

IV

The foregoing discussion indicates that stability and growth in the economy require, as a minimum program, the formulation and execution of a monetary policy which supplies money adequate to the needs of an expanding economy and which, at the same time, forbids the monetary factor to accentuate business cycles, whether the amplitude of the cycles be great or small.

Since the money supply is tied, importantly, to the public debt, it follows that guides to debt-management and guides to monetary policy should not be inconsistent. Herein lies the necessity for close cooperation between the managers of monetary policy and the managers of fiscal and debt-management policies. A lack of such cooperation can be a source of great confusion.

The whole burden for achieving stability should not, however, be placed on monetary and fiscal policies. Non-monetary factors, such as wage rates and business decisions concerning prices and capital investments, are overwhelmingly important.

Monetary policies and controls, however, commend themselves to businessmen. They do so because they offer the possibility of achieving greater stability and, consequently, the avoidance of more direct control by government over business. This point was expressed strongly by the Chairman of the Monetary and Fiscal Policy Subcommittee of the Committee for Economic Development, when he said:

"I want to draw a sharp distinction between fiscal, monetary, and

*An address by Dr. Peterson before the National Convention of the Independent Bankers Association, Des Moines, Iowa, April 15, 1950.

debt-management policies on the one hand and direct controls on the other hand. By direct controls, I mean such measures as Government price controls, wage controls, rationing, allocations, and controls over the direction of investment. Failure to distinguish between these two kinds of measures is responsible for much confusion in public discussion and could lead to serious error in public policy. Two kinds of confusion are common. One is to reject the attempt to achieve greater stability by fiscal, monetary, and debt-management policies by putting these policies in the same class with direct controls over the details of private economic activity. The other is to accept and justify all manner of direct controls by putting them in the same class with indirect financial measures for stability.

"Fiscal, monetary, and debt policies are appropriate means for attacking the problem of instability in a free society."

The report of the Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report, known as the Douglas Committee, contains this challenging statement:

"Those who would oppose using monetary, credit, and fiscal policies for stabilization purposes, either by refusing to give the Government adequate powers or by obstructing its use of these powers, must therefore either oppose the purposes of the Employment Act or find other methods of equal effectiveness and of equal compatibility with our democratic, free-enterprise system."

The past accomplishments of American business, labor and agriculture have been magnificent. Now, with new technological developments at our command, the future promises to provide still greater opportunities to promote a better living for the whole people.

The stability we all want in our economy is not stability attempted by "standing still"—that course would bring instability. With no increase in new business plant, physical volume of production, and the number of jobs, we should certainly have a sick, starved, stunted, sterile, and unstable economy. On the contrary, a stable economy is one characterized by steady growth in capital expenditures, higher productivity, and greater employment opportunities.

Private enterprisers must accept the challenge in the fact that growth is essential to stability. Fears that growth will cease will cause growth under private enterprise to cease. Fears that new investment might not be profitable will make all enterprise less profitable than it need be. If private enterprise will set its sights on steady growth, new investments will be profitable, and private enterprise will endure, and we shall continue to have the most productive and the strongest economy in the world.

A coordination of good monetary policies and good fiscal policies would be helpful in achieving both stability and growth — that is my major thesis today.

Would it not be a great tragedy if we, facing great promises for the future, should waste our substance in monetary mismanagement? If we do so, the blame might rightly rest on a refusal on the part of the financial community, to permit the formulation and execution of good monetary management. Let us call for a monetary program under which we can gain greater productivity and a better living for all the people. Let us not be fearful of good monetary management. We should rather be fearful of the lack of it, for lacking it we should stand to lose not only greater productivity and material well-being, but also our democratic institutions and the freedoms we cherish.

Public Utility Securities

By OWEN ELY

Toledo Edison

Cities Service Company recently announced that holders of its common stock would be offered the right to purchase shares of common stock of Toledo Edison on a share-for-share basis. Cities Service owns about 98½% of the outstanding stock. The offering will be priced at a discount from the estimated market price at which Toledo Edison is expected to sell.

Soon after expiration of the subscription period (probably late in May) Toledo Edison proposes to sell an additional 400,000 common shares at competitive bidding, to finance its construction program.

Toledo Edison is adjusting the number of its common shares to an amount which will facilitate the share-for-share subscription offering of Cities Service, each of the old shares being changed into 1.355 new shares, resulting in an increase of 985,125 shares; the addition of the 400,000 shares would bring the total to 4,160,125 shares.

For the 12 months ended Jan. 31, 1950 net income as adjusted (unaudited) approximated $4,302,000, leaving a balance after preferred dividend requirements of $3,622,000 or 87 cents a share on the increased shares. The management estimates earnings for calendar year 1950 at 95c. It is proposed to initiate quarterly dividends at the annual rate of 70c, which would approximate 74% of these estimated earnings.

Following is a summary of the adjusted income statement contained in the preliminary prospectus (000s omitted):

	12 Mos. End. Jan. 31, '50	1948	1947	1946	1945
		——Calendar Year——			
Gross revenues	$24,800	$23,900	$21,000	$18,100	$17,200
Net income	4,300	3,300	3,600	3,000	1,900

The gain in net income in 1949 was due principally to savings in operating expenses.

The company's operations are wholly within the State of Ohio. The territory served with electric energy comprises the City of Toledo, 41 nearby municipalities, and 116 unincorporated communities and intervening rural territory, covering an area of about 2,500 square miles. The company estimates the population directly served at 531,000, of which 324,000 are located in Toledo. The territory served at wholesale, through 12 municipally owned and two rural cooperative distribution systems, has an estimated population of 26,000.

Toledo, the fourth largest city in Ohio, is situated on navigable water near the mouth of the Maumee River, which empties into the extreme western end of Lake Erie. It is one of the larger railroad centers in the United States, and its natural harbor is an important shipping point for upper Great Lakes ports. Toledo and the adjacent area constitute an important manufacturing center with a wide variety of industrial enterprises. It is also an important merchandising center for a wide area devoted largely to agriculture.

About 97% of the company's revenues are electric, and 3% natural gas and heating. Of the electric revenue 33% is residential and rural, 18% commercial, 42% industrial and 7% municipal and miscellaneous. In the 12 months ended Jan. 31, 1950, the company produced about 94% of its electric energy requirements and purchased 6%. It has an interchange arrangement with Ohio Public Service (now Ohio Edison), is also connected with Ohio Power, and buys a small amount of firm power from Interlake Iron. The electric properties are fully interconnected. The annual load factor in 1949 was 62%.

While the industrial sales of electricity are rather substantial they are well diversified. The three largest industries served—glass, auto accessories, and oil refining—each account for about 10% of the total industrial revenues, with the remaining 70% spread among a large number of industries.

The average revenue per KWH is about 2.90c for residential customers, and the average annual sales 1,890 KWH, both of which amounts compare favorably with the national average. Depreciation and maintainence are about 14.6% of revenues, and the depreciation reserve is about 14% of gross plant account.

Plant account may contain substantial intangibles since the company has not been required under Ohio laws to restate it on an original cost basis. An item of $3.8 million "excess plant cost" is being amortized by charges to surplus.

The capital structure as of Jan. 31, 1950 (adjusted for sale of 400,000 additional shares at an estimated subscription price around 10) would be approximately as follows:

	Millions	Percentage
Funded Debt	$49	55%
Preferred Stock	16	18
Common Stock Equity	24	27
Total	$89	100%

Omission of "excess plant cost" of $3,828,000 would reduce the common stock equity to about 25%.

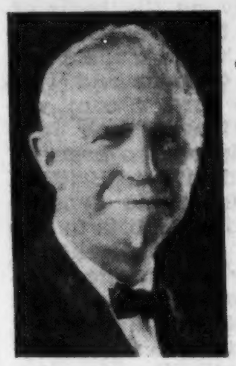
Since 1947 the company has spent about $27 million for construction and another $21 million may be expended during 1950-51, which will include completion of a 60,000/75,000 KW generating unit (replacing a 20,000 KW 25-cycle unit) at the Acme station. To finance remaining construction the company plans to issue the 400,000 shares of common stock referred to above, $7.5 million mortgage bonds, and will increase unsecured debt by about $2.3 million. It is estimated that of the total plant and equipment at the end of 1951, about 43% will have been added during the five year period since 1946.

The Farm Situation

By ROGER W. BABSON

Mr. Babson, though noting American farmers have improved their financial status, warns because they are sacrificing their traditional independence, they are selling their birthright for a mess of pottage. Holds assessing taxpayers to pay for overproduction of farm products is economically and morally bad.

Although I am a statistician rather than a farmer, no spring to me would be complete without making an appraisal of the U. S. farm situation.



Roger W. Babson

Farmers, like practically everyone else, are rather preoccupied with the business of making money. Their success in this matter during the decade from 1940 through 1949 is nothing less than outstanding. Farmers' total cash receipts climbed from $8,688,000,000 in 1939 to $31,308,000,000 in the record year of 1948. Last year there was an 11½% decline to $27,703,000,000. Will the downtrend continue in 1950?

Although it is much too early in the season to attempt a forecast of total crop production, it may be taken for granted that farmers will try again for another bumper outturn. Government supports are too attractive for them to do otherwise. Acreage cuts may well be offset by use of better land and seed, closer planting, and intensive cultivation. But weather will be the determining factor. Should the aggregate 1950 crop again be large, farmers' total receipts may slide 10% more to somewhat under $25,000,000,000—a tidy sum, nevertheless!

Factors Behind the Slump

During the war years, it was absolutely essential that farm production be stepped up to the limit, so that the needs of our allies and of ourselves might be adequately provided for. History reveals how well those needs were met. Farmers throughout the land bent their shoulders to the wheel and turned out unprecedented crops for years on end. No other country in the world ever has matched their magnificent performance.

But after the war ended farmers still continued to produce huge crops of wheat, corn, and most other agricultural commodities. And why not, since government price supports guaranteed them a handsome income? Meanwhile Europe has become virtually self-sustaining in agriculture, and no longer needs to import large quantities of farm products from this country. The net result has been a continued accumulation of agricultural commodities, especially in the hands of the U. S. Government.

A Mess of Pottage

American farmers in recent years, as stated above, have improved their financial status by leaps and bounds. Many among them are millionaires. Their sons drive Cadillacs and other fine cars. But are they selling their birthright for a mess of pottage? The traditional independence of the farmers of this country is, in my opinion, in jeopardy. I do not believe that the taxpayers will continue indefinitely to countenance heavy overproduction of farm products at guaranteed prices. The situation is economically and morally unsound.

Since, however, this is an election year, the government cannot afford to get really tough with the farmers. But the story will be different next year. One government official reportedly has said: "These production trends will force crackdowns on farm plantings in 1951. We're just starting to bring farmers into line. Next year we'll hit 'em harder." Note that phrase, "into line." It savors very much of regimentation. To me, it has an ominous ring. I sincerely hope that more farmers will come to their senses before it is too late. One control leads to another. The best of all controls is self-control; the more self-control, the less imposed control.

A Good Year Nevertheless

Although farmers' cash receipts may drop to $25,000,000,000 this year, this is a huge sum even in this era of astronomical accounting. Farmers, therefore, should not worry too much about **loss of income.** If they must worry at all, it should be about **loss of freedom.** But if they practice self-discipline, they may yet escape the chaffing shackles.

Business in farm territories this year should be generally good. I believe, however, that farmers will spend more cautiously than heretofore. If you have anything to sell in rural areas, make it good and price it right. Farmers will buy liberally in 1950-1951 only if business meets these simple specifications.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of John F. Reilly to Herman S. Kohlmeyer will be considered by the Exchange on April 28.

Interest of Edwin H. Warms, who died on April 11, in the firm of Jacques Coe & Co. will cease April 30.

John J. Murtha, partner of Cooley & Co., Hartford, died on April 13.

Hecker to Admit Korn

PHILADELPHIA, PA.—John C. Korn will acquire the New York Stock Exchange membership of Russell J. Sellers and on May 4 will become a partner in Hecker & Co., Liberty Trust Building, members of the New York and Philadelphia-Baltimore Stock Exchanges. He will make his headquarters in New York City.

Walter J. Hood Co. Opens

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ME. — Walter J. Hood has formed Walter J. Hood Co. with offices at 415 Congress Street to engage in the securities business. Mr. Hood was formerly with J. Arthur & Co., Inc., as Rockland, Me., resident manager.

Ungerleider to Admit

Ungerleider & Co., 41 Broad Street, New York City, members of the New York Stock Exchange, will admit Arthur E. Goetz to partnership on May 4.

Gregory Maloney Dies

Gregory Maloney, member of the New York Stock Exchange, died April 23 at the age of 70.

Canadian Securities

By WILLIAM J. McKAY

Recent high-level discussions in Britain between Canadian trade officials and representatives of British export industries have apparently by no means produced the desired results. According to reports emanating from north of the border the current joint efforts designed to bring Anglo-Canadian trade into closer balance are seriously threatened, largely it is stated, as a consequence of British recalcitrance. British exporters are accused of disinterest in the development of markets in Canada despite strong pressure brought to bear on them by various governmental trade bodies. Complaints are also made concerning late deliveries, and the deterioration in quality of British goods.

This sudden spate of criticism is all the more serious as it has been mostly confined to important United Kingdom export items such as woolens and worsteds cotton-goods, and leather-goods. From the British side, on the other hand, there has been curiously little comment apart from protests concerning the inordinately high proportion of goods recently returned as unusable by Canadian importers of woolens and worsteds. On the contrary, considerable gratification has been expressed in Britain concerning the rise of British exports to Canada, especially in the case of automobiles. When consideration is given however to the recent series of protests and briefs addressed to Ottawa on the subject of the threat to domestic industries of foreign competition, the situation appears a little clearer. It would appear that domestic industry in Canada is now making an effort to secure governmental aid to curtail imports from abroad that, since the September devaluations, now compete keenly with the products of Canadian industry.

This pressure on the Canadian authorities is thoroughly understandable. During the war and the immediate postwar period many youthful Canadian industries had the field to themselves; consequently it was unnecessary to give careful consideration to the vital factors of competitive price and quality. Now that competition has returned many Canadian producers are ill prepared to cope with the new conditions. At the higher levels however it is well understood that the time had eventually to come when the resumption of normal foreign trade would inevitably cause certain domestic dislocations. It is fully realized moreover that any artificial impediments placed on the entry of foreign goods is likely to jeopardize Canada's own markets abroad. No country is more committed, if merely on the basis of self-interest, to the greatest possible freedom of world trade. Furthermore, both Canada and this country can no longer continue indefinitely to finance their foreign trade largely on the basis of endless loans and gifts to Britain.

Therefore it is in the general interest that British exports to the North American continent should receive every encouragement. Canada in particular has a vital stake in the future of the pound sterling. Any means whereby sterling convertibility can be achieved should receive the blessing of the Dominion authorities as this would pave the way for the freer movement of international trade. In this connection it is certain that during the forthcoming second U. S.-Canadian-British economic parley the question of the $9 billion blocked sterling balances will be one of the principal items of discussion.

The United Kingdom has already made known its intention to seek U. S.-Canadian cooperation with a view to settling this thorny problem that has so long constituted the chief barrier to multilateral freedom of trade and exchange. Canada together with this country will thus have the opportunity to take a long stride forward in the direction of the restoration of a more normal flow of world commerce and at the same time to place sterling on a stable basis and to extend North American markets in the Near and Far East. From the British angle the lightening of this formidable burden of indebtedness should permit immediate consideration of the question of sterling convertibility, the removal of trade and financial restrictions, and the diversion of unrequited exports to North American markets. As far as Canada is concerned the assurance of sterling convertibility would also remove the greatest obstacle to the lifting of the restrictions that now impede the free movement in both directions of capital and goods across the U. S. border.

During the week activity in the external section of the bond market was largely confined to a few transactions in long-term Albertas that traded at a slight premium above the issued price. There was a continued demand for internal Dominions and the discount narrowed to 11¼%. The corporate-arbitrage rate on the other hand weakened to 15¾-15%, while free funds remained steady at 9¾%. Stocks on the Toronto Board were little affected by the reaction in New York and the industrials and base-metals reached new all-time peaks. Distillers, Asbestos Corporation, Quemont, Newlund, United Keno, Anacon Lead, and Waite Amulet were among the most prominently traded issues. The golds an western oils made little headway, although National Petroleum, on the discovery of a new pool, registered a sharp advance.

Private Building Abroad Stifled!

Robert P. Gerholz, President of National Association of Real Estate Boards, recounts impressions on housing and inroads of Socialism in Britain and on the European Continent.

Robert P. Gerholz

"The straitjacket which bureaucracy has placed upon private industry in England and France is frightening and has convinced me that we must redouble our opposition to the inroads of Socialism in this country," Robert P. Gerholz, Flint, Mich., President of the National Association of Real Estate Boards, remarked in an address on April 21.

Speaking at a meeting in which 17 real estate boards participated in Palm Springs, Calif., he based his remarks on his recent visit to England, France, and Belguim with Herbert U. Nelson, Executive Vice-President of NAREB.

"The one objective of the bureaucrats there — to perpetuate themselves in office and maintain the welfare State — scares one," Mr. Gerholz declared. "In England they are doing away with home and property ownership, and it is considered almost subversive to talk about the place or ability of private enterprise to solve the housing problem."

This attitude was dramatically illustrated by two episodes, he added.

"As I talked with two of the top Government officials concerned with the housing program, they said that free enterprise was a good thing for the United States—that we had a rich country which could afford it and that it was possible here. Their philosophy for England followed the pet idea of the leftist thinkers that being poor, their country could make ends meet only by employing hordes of bureaucrats to think out new ways of putting production into straitjackets. Of course, they didn't go into the next obvious question of how it is possible for the United States with its 'wasteful' system to maintain the world's highest standard of living and still subsidize the socialistic economies of Europe.

"The other experience was our conversation with the members of the Royal Institution of Chartered Surveyors. About half of these men, who represent the top flight real estate men of their country, have taken jobs with the Government 'in order to live,' as they explain it. However, they profess to be in favor of the free enterprise system, but the best evidence we could gather indicates that they have made very little effort to stem the encroachment of the Government. In other words, they didn't stand up and fight for independence, and now that their business is gone they are accepting it phlegmatically.

"The notorious Town and Country Planning Act has been the kiss of death for the real estate industry," Mr. Gerholz asserted. "Under it, all initiative has been killed, and the Government housing program fell short of its goal last year. It has been necessary to cut down the goal for this year, despite the critical shortage.

"Typical of the control impressed by the Government is the allocation system for all new housing construction. It is set up to permit only one privately built unit for each nine constructed by the Government. But even this presents a false impression. A private builder, before he can move ahead, must obtain a license from the Government and this act requires from six months to two years. Because of the bureaucratic red tape, it is virtually impossible for any private building, no matter how much capital an individual might have to invest.

"Any privately built housing developments are discouraged also by this Town and Country Planning Act. If an entrepreneur, for example, desired to develop agricultural land into a subdivision, he would first have to obtain permission of the local planning authority. Then the value of the land would be divided into its two parts—one the value for its existing use as farm land, and second, its potential value as urban land in the development. The 'development value' is collected by the State. Thus, the incentive is gone.

"We obtained a picture of the real estate situation, not only through inspection trips in the field, but also through attendance at more than a dozen meetings with representatives of industry and high Government officials. These included sessions with the Royal Institution of Chartered Surveyors, the Chartered Auctioneers' and Estate Agents' Institute, and the Building Progress Group Ltd. In France we met with the Minister of Reconstruction and were entertained at a reception by Ambassador David Bruce.

"These sessions revealed the effect of five years of managed economy. Morale and efficiency are out the window. The 'guaranteed work' has destroyed the incentive of labor and helps to maintain the attitude that the Government is doing a good job. The bureaucratic red tape and restrictions, with oppressive taxation, have created a roadblock which prevents any desire on the part of management to risk venture capital.

"In Government building," Mr. Gerholz said, "cost is no object. For example, I observed a complete lack of coordination of materials on the site and little evidence of men working at one of their projects. It had been started two years ago, and it was estimated that it would take another eight months to a year to complete. It was the kind of a job that private enterprise in this country would have to finish in six to eight months to avoid going broke.

"We proposed to Government officials a plan of supplying 5,000 prefabricated homes to help ease the shortage. Under the English scheme of capital investments for the whole economy, they would have no part of the idea. The question of whether the plan had any merit was not even considered. The important factor was that it would destroy the equilibrium of the economic program for Britain. Such is a planned economy.

"Just one hour by air from London, Brussels, Belgium, was like a breath of fresh air in the spring," he said. "Of all the European nations involved in the war, Belgium has given the freest rein to the private enterprise system. The contrast in conditions is astounding. Instead of the rationing of poverty as in England, we found plenty to eat and wear, and housing is available. The most serious concern of the Belgian people just now seems to be whether to invite the King back.

"A good volume of building by private industry is under way, with the emphasis, as in England and France, on the exteriors of homes. In the United States, we plan from the interior out, but there they plan from the exterior in. Their walls and roofs, consequently, are more durable than ours, but little thought is given to the interior space arrangement and to the conveniences such as heating, plumbing, and lighting. Consequently, their interiors look like the Ford jalopy of the 1920 vintage as compared with the 1950 Cadillac.

"There is no need of abstract propaganda about building up Socialism or closing the dollar gap to induce the Belgian laborer to put in a good day's work. He knows that he may lose his job if he is inefficient. There is no 'guaranteed work.' But on the other hand, he knows too that if he is efficient, he can choose from a wide range of unrationed goods. There is no question in the mind of an observer which system of government and economy works and which doesn't.

"One of the few drawbacks about which we learned in our short visit to Belgium was the 12% purchase tax on all types of goods, including homes.

"In France more than 30 years of rent control and inflation have left the scars of neglect on the once beautiful city of Paris to such a degree that it is hardly recognizable. All incentive to build has been destroyed, and we didn't see 50 new buildings in Paris, despite the drastic housing shortage and the war damage.

"Because of the inflation, for example, a rent frozen at 1,000 francs in 1914 would amount to less than $3 today—not enough to buy a good dinner. Owners cannot sell their buildings, and they have become such liabilities that advertisements appear in the papers offering to give away apartment buildings."

Business Man's Bookshelf

Counters — A History of Sears, Roebuck & Company—Boris Emmet & John E. Jeuck—University of Chicago Press, 5750 Ellis Avenue, Chicago 37, Ill.—cloth, $7.50.

Economic Giant — Booklet on economic importance of the American Trucking Industry — American Trucking Associations, Inc., 1424 Sixteenth Street, N. W., Washington 6, D. C.

Lower Prices Coming!—William Baxter — Economic Research Bureau, 76 William Street, New York 5, N. Y.—paper—$1.00

Negroes in the Work Group—Jacob Seidenberg — New York State School of Industrial and Labor Relations, Cornell University, Ithaca, N. Y.—paper—15¢.

Rights for Robots — Sir Ernest Benn — Foundation for Economic Education, Inc.; Irvington-on-the-Hudson, N. Y.—paper—no charge for single copy; quantity prices on request.

United States and the Restoration of World Trade, The: An analysis and appraisal of the ITO Charter and the General Agreement on Tariffs and Trade—William Adams Brown, Jr. — The Brookings Institution, Washington, D. C.—cloth.

Common Sense Security Analysis—Manual and weekly stock analysis reports available for six weeks on a trial basis for $5—Dept. C-25 Investors Research Company, Mihran Building, Santa Barbara, Calif.

This Is Capital Appreciation—Method of measuring comparative strength of buying and selling in the whole market—$1.00—included with the book are latest reports on an interpretation of the market; relative strength measurement on 460 stocks and 42 industry groups; and buy, hold, sell or sell short recommendations on a specific list of stocks—ask for Report C-102, Mansfield Mills Company, Larchmont, N. Y.

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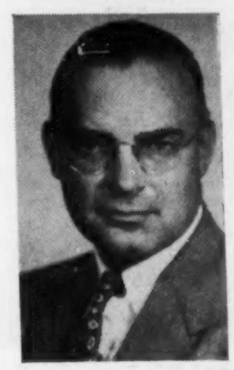

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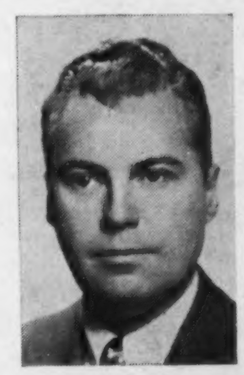

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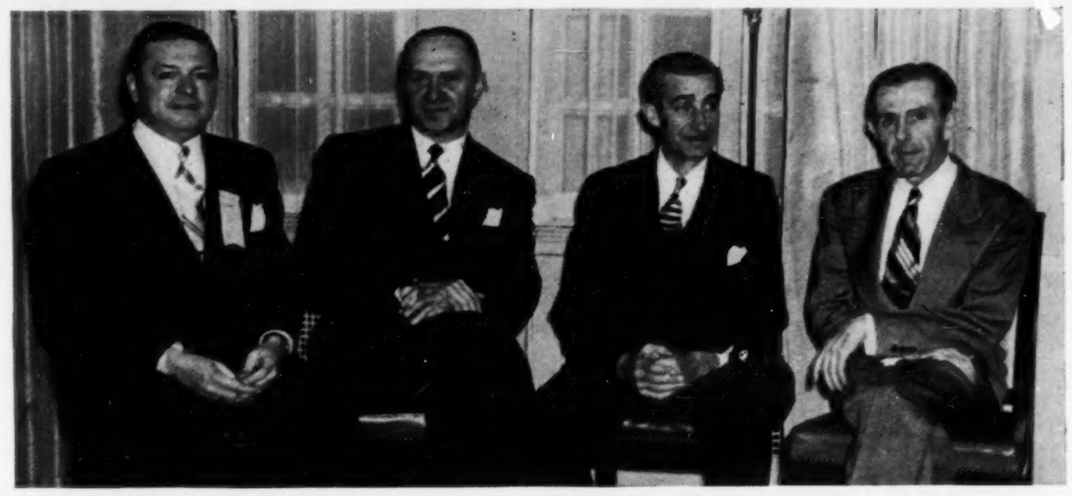

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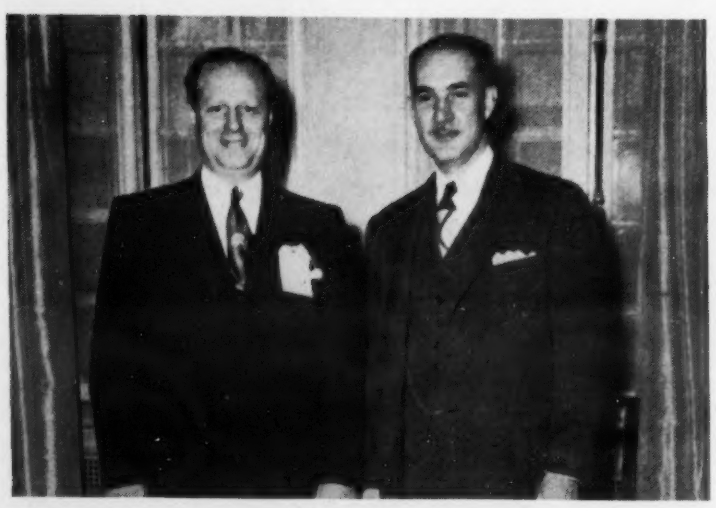

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A. H. Lund, Securities and Exchange Commission, Washington, D. C.; John J. O'Kane, Jr., *John J. O'Kane, Jr., & Co.*; Gerard J. O'Brien, Securities and Exchange Commission, New York; Joseph G. Connolly, guest; John W. M. Rutenberg, Assistant Attorney General for New York State

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Friday, April 21st, 1950

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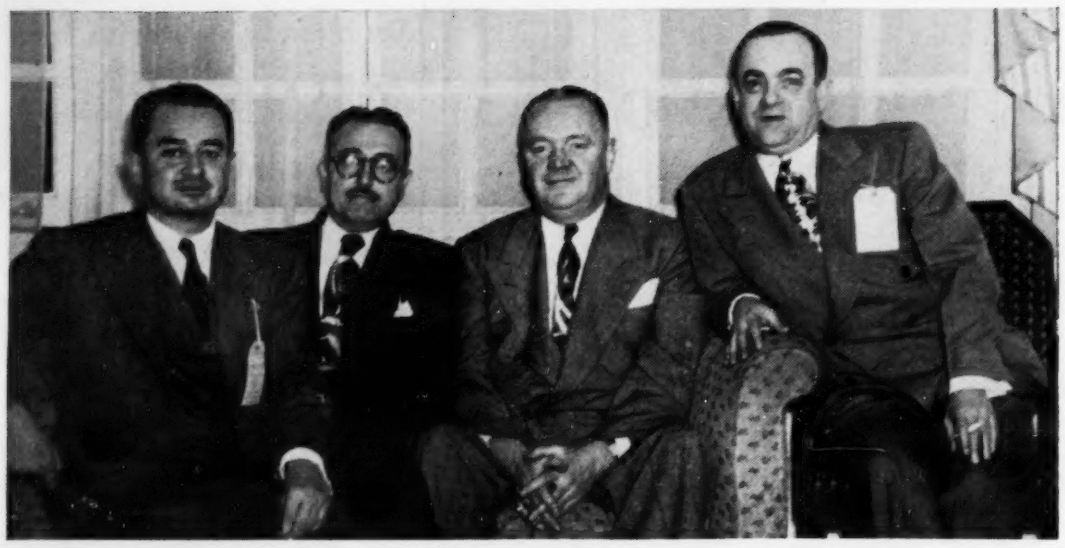
Over 1500 in Attendance



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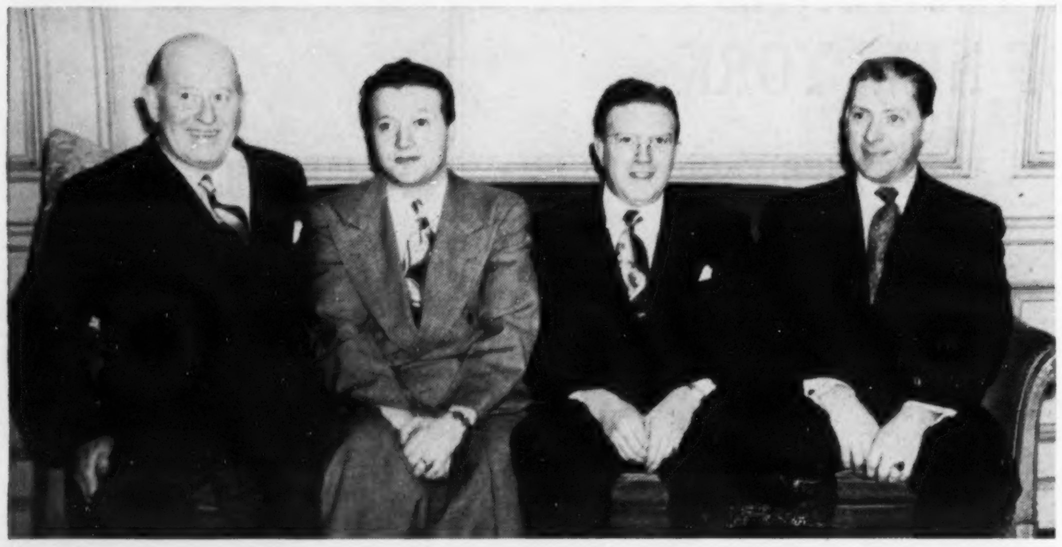

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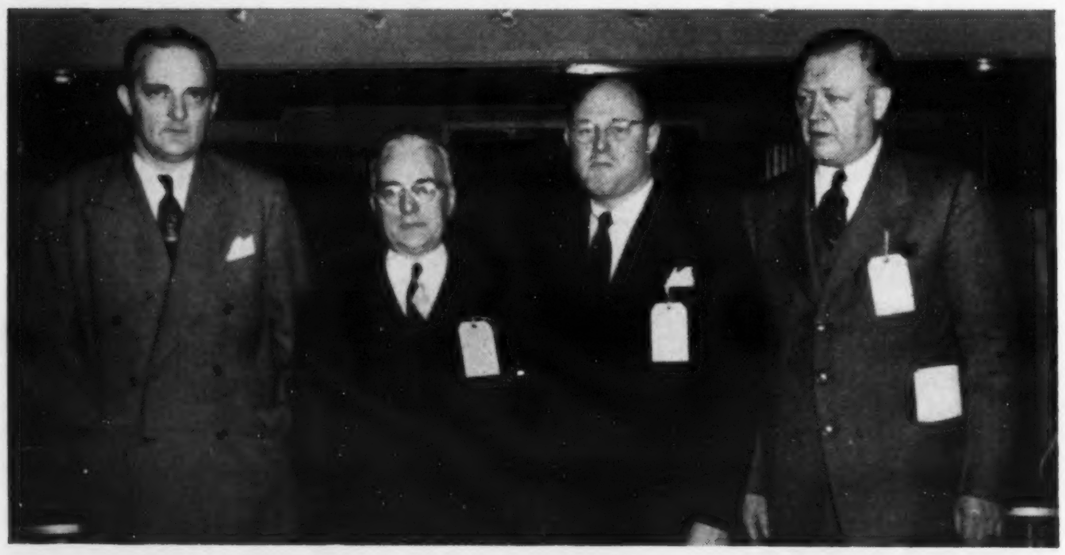

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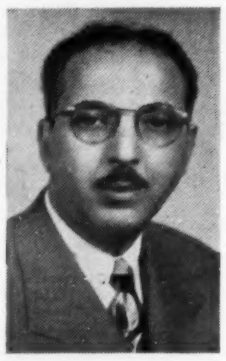

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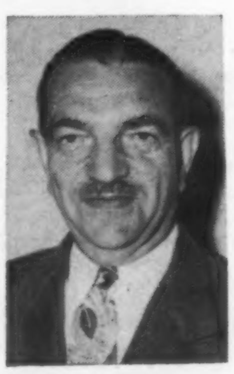

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More Railroad Profits From Modern Freight Equipment

By FAIRMAN R. DICK*

Partner, Dick & Merle-Smith; Members, New York Stock Exchange

Revealing new developments in freight car equipment which are expected to increase the payload per car by 50%, Mr. Dick predicts substantial addition to railroad profits from this source. Looks for no difficulty in financing of between 20,000 to 40,000 new type freight cars, but warns against unlimited use by railroads of equipment obligations in buying equipment. Urges railroads be "freed from their shackles" and be permitted to compete with other forms of transportation.

If I am going to give you my views as to the need for modern railroad freight equipment in 30 minutes, which is my intention, I had better waste no time in emphasizing the obvious. I therefore am not going to present the standard figures tabulating the age of our present freight equipment. You all know that a high proportion of it is old enough to vote! Nor am I going to compare the improvement in freight car design over the last 30 years—or the lack of it—with the improvement in automobile and motor-truck design. Nor am I going to argue that for reasons of defense the country should have a surplus of railroad transportation capacity. Nor, finally, am I going to take any time explaining to you that in spite of our trucks, waterways and decentralization of industry the demand for railroad transportation is still growing, not only absolutely, but on a per capita basis.

Fairman R. Dick

Instead, I am going to make a point which I feel badly needs making. It concerns the earning power of a freight car of modern design. It can out-earn our present standard cars by an impressive margin. For almost a year I have been collaborating in a study of this problem, and it is probably these studies that occasion my invitation to be here tonight.

New Type Box Car

The occasion for these studies has been the new car now under production by the General American Transportation Company. It is a 50-foot box car, and it will be equipped with modernized trucks designed by the Chrysler Corporation, and with other devices designed to eliminate shocks. It will also be equipped with improved loading devices designed by the Evans Products Company. If this car fulfills expectations, it will practically eliminate loss and damage, and permit an increase of 50% in the pay load.

I have no qualifications entitling me to pass on the mechanical aspects of this car. Moreover, I am not going to dwell on the savings that will result from elimination of loss and damage claims, nor the savings in the cost of dunnage and lading protection. You all know that loss and damage claims have been mounting and that they now come to more than $100,000,000 a year. I have been unable to obtain any reliable figures on the cost of dunnage, except that this cost is high, and a reduction in this loss will be highly advantageous to shippers.

I do not need to be reminded that mechanical difficulties are not the only difficulties to be overcome if the pay loan is to be increased.

There may be difficulties in persuading shippers to load the cars heavier, and there will probably be social and political difficulties. I will not take the time to discuss these additional obstacles, except to say that I am extremely confident that they will be overcome if the savings are important to the shippers in particular, and to the American public as a whole. After all, the public pays the bill, and the public is becoming bill-conscious.

In self-protection, I must mention one other point, and that is that time limitations compel me to omit a number of important elements of the problem if I am to succeed in giving you a clear, over-all presentation. If anyone in my audience, therefore, is searching for an opening for a critical comment, he will have no difficulty in finding one!

Increased Pay-Load of Cars and Net Earnings

And now I come to the effect of an increase in the pay load per car on net earnings. That an increase in pay load increases net earnings is axiomatic, regardless of the method of transportation. I do not have to explain therefore that more paying passengers in an aeroplane reduces the cost per passenger, or that more tons in a truck reduces the cost per ton. As a matter of fact, it is the campaign of the truck operators to increase truck sizes in order to increase pay loads that has brought about state legislation limiting weights, in order to protect the highways from damage. In all probability, the consideration of protection for the highways will prevent a further increase in truck weights.

Great Savings Potential

In railroad freight service, we are subject to no practical limitations based on the strength of the roadway. We do, however, have a complication because railroad operations break down into two transportation units; one of these is the train, and the other is the car. The importance of increasing the length of our trains was discovered or at least emphasized by old Jim Hill generations ago, but the importance of increasing the pay load per car has received less attention, and my studies have convinced me that the realizable savings potential here is very important.

"Very important" is, I believe, an understatement, at least if the results of the studies in which I have taken part prove to be correct. As to this, I myself have no doubts. These studies have been made by Mr. Robert Janeway, Dynamics Engineer for the Chrysler Corporation, and I hope Mr. Janeway will not feel embarrassed when I say that never in my business career have I been more impressed than I have been by his mastery of the cost accounting problems involved. Mr. Janeway's experience has been largely in the industrial field. This, I think, is an advantage, as his approach was not influenced by historic habits of thought. In connection with his studies we conferred with Mr. Ford Edwards of the Bureau of Accounts and Cost Finding of the Interstate Commerce Commission, who has directed a really monumental work in this field, and in this work has amassed a vast amount of data based on questionnaires to the railroads covering every conceivable field of railroad operations. Mr. Janeway has not taken the results of Mr. Edwards' study on faith; he has delved into every phase of it, and has found himself in complete agreement on all the important and difficult factors involved. I have listened in on these discussions, and while some of the mathematical problems left me gasping, I have no hesitation in saying that I am convinced that the final result is as correct an answer as it is possible to obtain.

Past Experience Demonstrates Large Savings Possible

Nevertheless, in any analytical study of this nature I always make an effort to delve into past history in a search for corroboration. Fortunately, I was able to discover two periods in the past that, in my opinion, furnish conclusive evidence as to the effect of increasing the pay load per car on railroad net earnings. One of these periods is from 1921 to 1939, when the pay load per car was decreasing slightly, and the other period was from 1939 to 1943, when the pay load per car increased substantially.

In the first period, which embraces the railroad rehabilitation program following World War I, great strides were made in reducing operating costs. Improvements in track and improvement in motive power resulted in substantial reductions in the cost of handling the gross weight. As a result of longer and heavier trains, pay load per train increased. This was an achievement, and it called for a companion achievement—it called for a parallel increase in pay load per car. But, instead, while the pay load per train rose, the pay load per car fell. Consequently, the achievement of the 1921-1939 period in reducing total load cost was not fully reflected in pay load costs. On the one hand, the cost of carrying total load fell $1,700,000,000 during these years. On the other, the cost of carrying pay load fell by only $1,450,000. But it is pay load that pays off: and at the end of this 18-year period, no less than $250,000,000 of the economies achieved in total load costs were not paying off in lower pay load costs. In other words, during this period of declining costs, the pay load proportion of the total freight load declined.

Postwar Increase of 25% in Pay-Load per Car

Subsequent to 1939 the demands for wartime transportation necessitated an increase in the load per car. From 1939 to 1943, the pay load per car (weighted for distance), increased almost 25%. During this period, the cost of carrying the gross weight increased with wages, materials and other inflationary costs, but the cost of carrying a ton of pay load declined against the inflationary trend. The reason for this achievement is simple and compelling—the pay load rose in proportion to total load. During these emergency years, the cost of carrying total load rose $400,000,000. But the cost of carrying pay load fell $400,000,000. This achievement in cutting pay-load costs in the face of systematic and over-all inflation paid off in transportation savings of $800,000,000.

These savings which resulted from an increase in the proportion of the pay load were not, however, the only savings. Savings in switching and terminal operations are not included in these figures, because in switching movements it is the number of cars switched that control the cost, and not the weight of the car, and an increase in the load per car results in a decrease in the number of cars switched. With a higher load per car, therefore, fewer switching movements are required to move a given volume of traffic. There is no easy or obvious method of determining what the savings in the cost of switching were in 1943. Mr. Janeway's studies, of course, include these savings in terminal and switching costs.

A study of this historical record appears to me to provide conclusive corroboration of Mr. Janeway's studies. I am therefore supremely confident that Mr. Janeway's computation of the savings that will result from a further increase in the pay load per car are thoroughly sound and can be relied upon.

Although the necessary mathematical computations involved in determining the effect on costs of an increase in pay load per car are complicated, the principles involved are comparatively simple, especially when the problem is limited to carload traffic, as Mr. Janeway's studies are. In carload traffic, as you know, shippers load and unload the cars, and all the railroad does is move the cars when loaded. The profit in carload traffic, therefore, depends on the difference between the cost of moving a car and the price received for moving a car.

I find that it simplifies the probliem to regard the railroad as manufacturing car-miles and selling car-miles. Increasing the pay load, therefore, by 50%, increases the price at which the car-mile is sold by 50%. This increase, however, is not all net, because the increased weight results in some increase in costs. It is this increase in costs, resulting from an increase in weight, that Mr. Janeway has computed so carefully and, while the figures are not yet complete, I have no hesitation in giving you some tentative figures.

Based on 1948 operations, the profit per car-mile was 11 cents, and if the increased pay load did not result in any increased costs, an increase of 50% in the pay load would increase the car-mile profit from 11 cents to 30 cents. Due to the increased costs, however, this full profit is not real-

Continued on page 42

*An address by Mr. Dick before the New York Railroad Club, New York City, April 20, 1950.

Railroad Securities

The ICC and Debt Reorganizations

Last week the Interstate Commerce Commission approved the proposed stock recapitalization of Boston & Maine, the first such stock plan to be approved under the so-called Mahaffie Act. To consummate the plan, the road must get an affirmative vote by holders of 87% of the 6% non-cumulative preferred and holders of 75% of all other classes of stock. The action of the Commission came as somewhat of a surprise to many analysts in view of that body's refusal to allow a stock recapitalization by Maine Central a short time ago. The most recent decision has revived hopes that some other plans—notably Nickel Plate and Katy—may now be worked out and presented to stockholders.

In all four of the cases mentioned above the difficulties revolve around substantial accruals of unpaid dividends on cumulative preferred stocks. In the Maine Central case the ICC ruled that such accruals did not constitute an emergency and that the plan was not designed to facilitate equity financing. It held, therefore, that the terms of the Mahaffie Act did not apply. In the Boston & Maine case it was again ruled that no emergency or crisis was impending. The plan was approved, however, on the grounds that its consummation would materially simplify the complicated capital structure. Boston & Maine now has outstanding three different classes of preferred, one of which is outstanding in five series with different dividend rates. On consummation of the plan there will be outstanding only one series of preferred and one series of common stock.

In another decision last week the ICC authorized Bangor & Aroostook to submit to its bondholders a plan for the extension of its bonds. All of the company's non-equipment debt, which amounts to roughly $12.5 million, matures next year and the company has not the funds with which to pay it off. Also, refunding is not considered feasible. This plan of extension is also being worked under the Mahaffie Act. If it is approved by 75% of the holders of each class of bonds it will be binding on the balance. The RFC, a large creditor, has already signified its approval and success of the plan is pretty well taken for granted.

Atlantic Coast Line has finally come forward with its exchange offer to holders of its first consolidated 4s which mature July 1, 1952. The bonds are outstanding in the amount of $50,724,000 and the company would like to get at least a substantial portion of them out of the way prior to maturity. They are non-callable. The exchange offer, which will remain open at least to May 10, will not be under the Mahaffie Act. Acceptance or rejection of the offer is entirely optional with the individual holder.

Holders of the first consolidated 4s, 1952, are being offered an exchange into a new general mortgage bond on a par-for-par basis. The new bonds will mature March 1, 1980, and will be callable initially for the sinking fund at 103 and otherwise at 107. For the first 2½ years (to Sept. 1, 1952) the bonds will bear interest at the rate of 4½%. Thereafter to maturity the interest will be at the rate of 4%, the same as on the present bonds. Starting next year, and lasting so long as any of the bonds remain outstanding, the company will provide a non-cumulative sinking fund of the greater of (a) 12½% of sinking fund net income (defined as net income less $500,000 at the option of the company) for the preceding calendar year, or (b) the sinking fund net income for the preceding year not in excess of $500,000.

The new bonds will be secured either by bonds which have a first mortgage on the most important lines of the company or by direct first lien on substantially all the existing railway property owned. Initially they will be secured by pledge, bond for bond, of the exchanged 4s, 1952. When the first consolidated mortgage matures in 1952 a like amount of unified mortgage bonds will be substituted. When that mortgage matures in 1964, the new generals will come into a direct first lien on the property covered. In addition to the pledged collateral the generals will initially have a direct first lien on 648 miles of line consisting principally of the company's Western Division.

Continued from page 41

More Railroad Profits From Modern Freight Equipment

ized, but is reduced to between 25-26 cents. You will note that the increase in the profit per car-mile is approximately 150%.

I regret very much that we cannot translate this increase of 150% in profit per car-mile, into an increase of 150% in the net earnings of the railroads, but obviously we cannot, because with constant traffic volume an increase of 50% in the pay load brings about a 33% reduction in car-miles. But, even so, after all adjustments are made, increasing the pay load per car will increase net earnings substantially.

Estimated Increase in Net Earnings

According to Mr. Janeway's most recent figures, based on the year 1948, an increase in the pay load of 20% will increase net earnings $561,000,000, and an increase of 50% will increase net earnings over one billion dollars. Please note that these figures apply to all railroad traffic. They are therefore purely theoretical, and I present them merely to show the general scope of the problem. When the increase in pay load is limited to a portion of railroad traffic (the lighter-loading commodities that are carried in box cars), the prospective savings are of course much less. Mr. Janeway's studies will break down into an estimate covering this type of traffic.

These figures I have just given you are based on constant traffic. If railroad traffic increases, the savings will be far greater. In the event that some day railroad cars come to be loaded 50% heavier, given no reduction in car-miles, the prospective increase in railroad earnings would become almost astronomical in amount.

Earnings of Car in Relation to Cost

So much for the effect on railroad earnings of an increase in the pay load per car. I now come to the problem of how much a modern car may be expected to earn in relation to its cost. The solution of this problem is not simple, and I am not going to go into details. Under average conditions, the operating savings per ton-mile appear to be about 2.2 mills per ton-mile. If we are to determine the savings per car, we must first make an estimate of how many ton-miles a modern car can be expected to produce—the more ton-miles a car produces, the greater of course the savings it will produce. No doubt, opinions will differ on this score, but it seems obvious that a car which produces savings of 2.2 mills per ton-mile will be given priority picking up every possible load. I feel, therefore, that we can safely assume that the annual ton-miles per car will be greater than the average. Opinions will differ as to how much greater, and what the final answer is, only experience can determine. At this time I do not care to give you a forecast as to how many years it will take for one of these new cars to accumulate savings in operations equivalent to its cost.

The new General American Transportation car will cost about $9,000 as compared with, let us say, $5,000 for the average 40-foot car. However, the General American car, if it performs as expected (i.e., if it is loaded 50% heavier), will carry the equivalent of 1½ standard cars. It will cost approximately $1,500 more than 1½ standard cars and, while I hesitate to make a defnite forecast, I will be surprised if the increased annual earnings are not in excess of the total increased capital cost. I am sorry that I cannot be more specific. For a more definite forecast of the future earnings power of a modern box car you must wait until Mr. Janeway's studies are finished, and you can then study the problem in all its complexities and be in a position to reach your own conclusions.

Question of Financing

And now I come to the question of the financing of a modernization program for freight cars. I am confident that there will be no difficulty in financing, by conventional equipment trusts, a number of modern cars sufficient to provide a conclusive demonstration of their earning power and value. Unless we have a serious setback in general business, I anticipate no difficulty in the financing of 20,000-40,000 new cars.

I would like to point out, however, that there is a definite limitation to the financing of new equipment by equipment trusts. When railroads sell equipment trusts, they do not raise new capital. They merely buy equipment on the installment plan and commit themselves to pay for all of it in cash, even if the payments are spread over a period of years.

Just how much farther the railroads can go in increasing their equipment obligations I do not care to predict. Some railroads apparently are finding some difficulty in making the first down payment, and if there is any doubt in regard to the ability to make the first down payment, there is obvious doubt as to whether the purchase is justified. If a man who is buying an automobile lacks the money to make the first down payment, the question arises as to whether he is justified in contracting to make future payments. In the event of a business reversal, fixed installment payments can become very embarrassing.

I must also point out that the modernization of our railroad motive power—that is, the diesel—is far from complete. But, for the present at any rate, I can see no financial obstacle sufficient to warrant doubt in the ability of our railroads to finance the purchase of modern cars in an amount sufficient to demonstrate their earning power and utility.

If the railroads are to really modernize their freight-car equipment, and at the same time continue with their dieselization program, new capital in substantial amounts will be required. The railroads must raise literally billions of dollars from investors by selling stock and bonds. Under present credit conditions the railroads cannot raise this new capital. Investors will not buy the securities, and the reason is obvious—for the last 30 years the railroads have only been permitte dto earn about 3½% on their investment.

If, however, our railroads are protected in their right to earn an adequate return, and permitted to readjust their rates, establish a competitive rate structure, and really and freely compete, there will be no difficulty, in my opinion, in raising this new money.

"Free Railroads from Their Shackles"

If the country wants modernized railroad transportation it can have it. Just free the railroads from their shackles; let them compete—let them earn—and the job will be done.

Over the last 40 years the railroads have, step by step, been squeezed out of our private enterprise system. They must be permitted to rejoin it and once they do, their financial difficulties will fade away and the required billions of new capital will be easily raised.

In closing, I wish to express my appreciation of your patience in listening to an amateur in railroad operation and railroad car designing and building. My lack of experience is obvious. However, when it comes to railroad earning power and the factors that determine it, I am by no means humble. I have spent 30 years studying it, and I am certain that you will find paydirt and plenty of it when you modernize your freight cars and increase your pay loads.

So I say to my railroad friends and my car-builder friends—"Thar's gold in them thar hills!"—Get busy and dig it out! And I say to my shipper friends—"Thar's gold in them thar hills for you also. Get busy. Help in every way possible. Your share will be stupendous."

When our railroad cars are fully modernized, and we are reaping our just reward, we will, I believe, owe a debt of gratitude to Walter Chrysler. He always had a sentimental feeling for the railroads, having started his business career in a railroad shop. And a few years before he died, he encouraged his research engineers under the leadership of Carl Breer, to see what could be done to apply their automobile suspension know-how to improving the ride of railroad cars. He said, "Go to work and design a truck that will ride as smooth as the rails."

Breer put his staff to work, and the new Chrysler freight car truck is the result. This truck is a good one, I believe; but it is not merely for this that we should thank Chrysler; it is for directing attention to the huge field of freight car development. This idea is now, I am sure, really taking hold. I feel it, and smell it. Mr. Selig has, I think, made a huge leap ahead. But he had better not relax; it won't be long before he will find a whole pack hot on his heels. I predict it is going to be a fine race. I think Walter Chrysler's spirit will have a most enjoyable time watching it!

D. R. Hartshorne Dead

Douglas R. Hartshorne died of a heart attack in his home at the age of 67. Mr. Hartshorne, who was a member of the New York Stock Exchange for 28 years, before his retirement was a partner in Hartshorne, Fales & Co.

Minneapolis Assoc. Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Henry D. Caley, Wayne D. Dotten, and Chester N. Fowler have joined the staff of Minneapolis Associates, Inc., Rand Tower.

Continued from page 21

World Trade and a Stable World

ure depends on foreign trade. Over half of Belgium's grain requirements must be imported if the nation is to live. Almost three-fourths of all the coarse grains the Netherlands uses must be imported for the nation to exist.

World Political Stability Requires International Trade

The benefits resulting from world trade flowing in regular channels are clearly apparent when one considers the alternative. The nations of the world would embark on programs of self-sufficiency. Barter agreements between nations would be written, and great cartels and state buying agencies would develop. Eventually, some states would hold others in virtual economic bondage. Then there would logically follow the socialization of industries, control over the disposition of output, restrictions, and finally regimentation of the individual and the loss of personal freedom. The distribution of the bounty of the world would be based on power politics, and the resulting illogical, inefficient, maldistribution would breed unrest and dissatisfaction. Some of these evils are now apparent in the world with its present maladjusted world trade and currencies. Instability of world trade and the blocking of the channels of trade through which men and women satisfy their demands for goods and adequate standards of living, invariably bring intense economic pressures. Historically, when these economic pressures have become great, nations have engaged in what may properly be called the mass cooperative suicide of war.

What Has Taken Place in World Trade

In order to understand clearly the nature of the present unbalanced world trade problems, it is necessary to know precisely what has taken place. Up to World War I, the United States had comparatively large external obligations. During the same period, however, we had a favorable balance of trade, i.e., our exports were greater than our imports. Thus, the excess of payments received for our exports over what was required to pay for our imports was used to pay the interest charges on our debts and to pay for shipping and other services. Whatever small balance finally remained was settled by means of gold shipments.

Beginning with the war in Europe in 1914, however, a great demand for all kinds of merchandise was created, and the world turned to the United States for manufactured goods. Thus stimulated, our exports rose from the $2 billion exported in 1914 to $8¼ billion exported in 1920, and we were able to retire most of our external debt. During this period, our imports, while increasing, did not increase as much as our exports and the excess of exports over imports, or the so-called trade gap, increased from $324 million in 1914 to $4,016 million in 1919. Shortly thereafter, we began to make loans abroad. The money borrowed from us in the 1920s was used largely to pay for goods purchased here, and our economy was stimulated and we prospered. It was a short lived prosperity. We stopped our lending, and soon the proceeds of the loans were spent. The flow of gold to the United States in payment of our experts increased. From 1914 to 1920 our gold reserves increased 100%; from 1920 to 1930 they doubled again. The consequences were inevitable; nations gradually curtailed their imports from the United States. United States exports shrank from $8.2 billion in 1920 to $1.6 billion in 1932, while imports slumped from $5.2 billion to $1.3 billion. World trade was reduced to a trickle.

In the middle thirties efforts were made to revive world trade through tariff adjustments. Trade did increase, but exports from the United States continued to exceed imports and the gap between exports and imports remained. Gold continued to come into the United States, our gold reserves increasing 400% from 1930 to 1940, while the reserves of the other nations of the world were running out. One by one they resorted to bartering as they did in primitive times. One by one they devalued their currencies as their gold reserves dwindled. By 1940, 65 to 70% of the gold supply of the world was in the vaults of the United States. During this period, the nations of the world did not send us enough goods to pay for what we shipped them. Instead we took their gold and their promises to pay.

During World War II, the trend was temporarily interrupted. We needed our goods and our productive equipment to produce war supplies. We also purchased substantial quantities of goods from a number of countries which enabled them partly to rebuild their gold reserves. During the war, the productive plant of many countries was destroyed or damaged, and in others it wore out or became obsolete, and thus a great task of reconstruction and rehabilitation was necessary when peace came. Stocks of raw materials were needed, and, in addition, a tremendous pent-up demand for consumer goods had accrued. Consequently, with the productive capacity of many nations impaired, and with abnormal demands for capital and consumer goods, the foreign trade of the United States following the war soared to all-time highs. In 1947, for example, exports reached a high of $14.5 billion, while imports reached $5.7 billion, and the world trade dollar deficit increased to the record of $9 billion in 1947 and $7.6 billion in 1948. In 1949, the dollar gap was about $5½ billion. Never before were the products of the United States in such demand. Never had the means to purchase them been so inadequate in relation to the demands. Great Britain, for example, had liquidated a large portion of her foreign investments, the income from which, together with that from other services, formerly paid for as much as 35% of her total imports. After World War II the income from her investments was sufficient to pay for only 3% of Great Britain's total imports, and her imports were 25% less in physical volume than in prewar years.

The gold reserves which some nations accrued during the war were rapidly depleted as they bought goods from us. In 1947, therefore, almost $3 billion in gold came into the United States; in 1948, $2 billion; and in 1949, nearly a billion. The situation again became more critical as the gold reserves and dollar balances of the nations of the world continued to dwindle.

The Dollar Shortage

The supply of dollars abroad is limited in general by what we buy from abroad. By and large, the only way nations abroad can buy from us an amount in excess of what they sell here is by means of credit or gifts from us. In the past 35 years, we have exported nearly $100 billion of goods and services in excess of what we bought or imported. Since 1940, we have made direct grants,

credits or loans totalling about $75 billion under a number of arrangements, including Lend-Lease, U. N. R. R. A., the Anglo-American loan, and at present the E.C.A. which finances some 30% of our exports. Despite this aid, the dollar reserves of Great Britain, although she achieved large production totals last year, proved insufficient, and she sold gold, causing her reserves to shrink to such critical levels that she devalued the pound sterling in September, 1949 in an effort to husband her dwindling balances.

The dollar shortage has been a chronic problem. It has persisted despite the operation of factors which should have helped to correct the disequilibrium. To be specific, tariffs have been reduced in the United States to the lowest level in our history, while trade and exchange restrictions and controls abroad have increased and become widespread, which should have facilitated and encouraged exports to the United States and tended to decrease imports from the United States. Furthermore, the flow of gold into the United States in recent years should have raised prices here and depressed them abroad, thereby tending to establish equilibrium in the balance of payments. In addition, wage rates have risen more rapidly and higher in the United States as compared to the rest of the world, and this too should have reduced the dollar deficit, but still it persists.

U. S. Productivity, Dollar Gap Factor

The increase in the productivity of industry and agriculture in the United States has been perhaps the major factor tending to outweigh or counterbalance the operation of the factors mentioned above. It is estimated that for the economy as a whole, output per man hour in the United States from 1900-1940 doubled or more than doubled. In manufacturing, the increase was threefold. Between 1850 and 1940 our working force increased six and one-half times but our machine power increased 250 times. Sumner Slichter, commenting on the American economy recently, noted that it is "The most productive in the world. With about 6% of the world's population, and an even smaller percentage of the world's labor force, the United States produces well over one-third of the world's goods." The relative mobility of labor and capital in the United States as compared to its relative immobility in other nations, as well as the knowledge of the mass production technique have played major roles in this achievement and have had a large part in giving us the serious problem of the dollar gap. European productivity has shown a remarkable increase since the close of World War II. However, the same may be said of the increase of American production. There is no reason to expect that the dollar gap will be closed in the next few years because European productivity increases while American production stands still or declines.

Much of the trade between nations has been possible only because of credits and grants from the United States. Presently, the United States provides 35% of the exports of the world, and in return receives 11% of the total imports. This disequilibrium is in many respects the crux of the economic problems of the world and, incidentally, it is costing American taxpayers $10 million a day because of our gifts of goods.

In the months immediately ahead this critical problem of closing the dollar gap may become one of the most important and challening problems to confront the American people. It is a matter of vital importance to world stability, but the various methods available to solve the problem all have some undesirable aspects.

Our present policy requires levying taxes on our people to lend or give funds to foreign countries whose gold and dollar balances are insufficient to pay for the goods and services we sell them. If we could receive finished goods, raw materials and services in full payment for our exports, we could replace the manpower, resources and capital equipment consumed in our exports. But even if it were possible to balance our foreign trade, we have over many years seemingly preferred a so-called favorable balance of trade in which our exports exceed our imports. This philosophy is apparently deeply ingrained in our thinking, and it is very doubtful whether our people will readily change their viewpoint on this matter. We continue to cultivate the comfortable feeling that a nation's international welfare is reflected in selling more than it buys. The maintenance of this belief may require making E.C.A. or some form of foreign aid a more or less permanently recurring part of the Federal budget.

Effect of Withdrawal of ECA Aid

There are some who may favor meeting this problem by eliminating all foreign aid and shrinking world trade accordingly. With a large Federal budget and debt, the need for economy in American expenditures is great. The obvious and first effect of the withdrawal of United States dollar aid to foreign nations (entirely aside from any question of strengthening certain nations against Communism), would be a reduction of about 30% in the volume of goods which could be purchased from us by foreigners. Our exports of goods and services in the last three years alone have totalled almost $49 billion. The ultimate effect of the resulting decrease in various types of industrial activity is difficult to forecast. But the reduction in exports would be reflected in declines in income and employment in a number of fields. The significance of such a reduction in trade in some industries can be more easily grasped when we realize, for example, that in recent years we have exported over 30% of our cotton production, and over 25% of our tobacco. Wheat, rice, apples, dried fruits and citrus exports are of major significance. Farm exports of about three and a half billion dollars are equal to approximately 10% of our national gross farm income. Wide agricultural areas would be adversely affected. Approximately 6% of our gross national production goes into export channels. If we applied the 6% figure to our employed population, it would mean a minimum of 3,600,000 persons engaged in export trade, and the number is in all probability larger. Some major industrial corporations employing large numbers of persons have 10 to 25% of their total volume in foreign sales. In the 40 year period, 1900-1939, we exported over 57% of our cotton, 35% of our tobacco, 18% of our rice, 7% of our pork and 29% of our lard annually on the average. We export substantial quantities of industrial machinery and implements, motor trucks, industrial heating and other equipment, and automotive and machine parts. It is possible that a 30% decline in exports would result in a proposal—from those whose livelihood in many industries would thus be adversely affected—for subsidies to some industries. A program of this kind might bring requests for the support of prices and might involve government purchases of surpluses, formerly exported. This program for meeting the problem of obtaining a balance in foreign trade would be the E.C.A. in reverse. Instead of the foreign countries receiving dollar aid through E.C.A. to buy here, American industry would directly receive a subsidy presumably (a) for not producing and for the loss of exports, or (b) as the result of the government purchasing surplus goods and crops produced.

A third proposal for handling this problem would provide for the continuance of foreign aid but on a steadily decreasing basis. It is suggested that after intensive surveys and economic studies, the United States ought to assist those countries with dollar deficits to develop resources and industries so that they may eventually become less dependent on needs from abroad, but even more important, so that they may produce export surpluses. Then the advocates of this proposal believe we ought to proceed, together with the cooperation of other nations, with a concentrated effort to give encouragement to the importation and utilization of these products in the United States and other nations. This might mean tariff reductions on some products, but it is argued this is a necessary price for world stability. Businesses which would suffer would be afforded some temporary relief until readjustments could be made. It is held that if a further reduction in tariffs is essential to world stability and peace and to the continuing over-all economic growth and development of the United States, then some individual industries that suffer for this policy should be given temporary assistance.

International Investment As Remedy

International investment is another possible method of correcting the present world trade unbalance. There are many difficult problems in connection with this proposal. Private investment will only be made on a large scale abroad if it finds equal or greater advantages in such investment than it finds here. Private American investment might be made in world areas where it might aggravate the problems of Western Europe. Private investment requires reasonable assurances that the risks are not too great. Moreover, such investment requires time and careful study.

The entire problem of finding a balance in world trade is an exceedingly complicated one, but its solution is imperative to world stability and peace. The proposals above are presented merely to indicate some of the difficulties involved and the need for careful study of the implications of any so-called solution before accepting it. Most of us will agree that the most acceptable solution for the problem is one that will provide for steadily expanding and not shrinking world trade, for higher and not lower standards of living for the people of the world.

It is often said that when we buy goods from other nations, we help them to have employment and full production. We help them to survive. However, it is said we put our own workers out of work, we make our own factories idle, and we injure the American nation. But we forget that whenever a foreign nation sells goods or services in our markets, for which it obtains dollars, these dollars must eventually be used in our markets. That is the essential, controlling fact. There is no other place in the world for the expenditure of dollars finally. They can be shifted from nation to nation, but eventually the dollars must be spent here. That means employment for us, factories in operation for us, sales for us of raw materials, farm products and finished goods. It means good business for us. Simply stated, then, every dollar we buy from foreign nations does not make us poorer, for the dollars other nations receive must be spent here.

You may remember the Irishman who said to a friend, "Now, Steve, if I can get this idea into your head you will have it in a nutshell." If the idea could be firmly fixed in the minds of the peoples of the world that international trade is mutually beneficial and is essentially the same as trade within countries, it would be an achievement of great and far-reaching significance.

The conclusion is inescapable that now and in the foreseeable future, a large export trade will require a large import trade, not merely because we need raw materials, but because this is a sound way for countries to buy our goods. In this way the United States can contribute to a revival of world trade and world stability.

If World War II brought nothing but world confusion, and if hope that these problems can be solved is dead, then any discussions on this highly complicated problem are futile. If, however, western civilization is now faced with its supreme opportunity to organize its common interests for a period of great progress for all mankind, then a consideration of this problem is essential if we are to avoid world chaos. This problem of balancing world trade is today associated with the life and death of nations, and is one of the two or three major problems of our time.

While the jungles of Africa may not go down tomorrow before an avalanche of Chevrolets, Fords and Plymouths; while the teeming millions of India may not eat a breakfast food tomorrow that "pops and crackles" as they pour on the cream; and, while the people of China may go through life ignorant of the social advantages of using Listerine and Lifebuoy, nevertheless, balanced world trade is imperative to a stable and peaceful world where peoples can live and work and hope with faith in the future.

Connecticut's Loan Plan to Provide Homes For Moderate Income Families Under Way

M. Shapiro & Son Construction Co. agrees to construct 300 private dwellings in Hartford area in cooperation with State Housing Authority and State Housing Commission.

The State of Connecticut's new 1½% interest mortgage loan plan to provide homes for families of moderate incomes moved into high gear recently when M. Shapiro & Son Construction Co., Inc., of New York and Hartford, agreed to construct a total of 300 private dwellings in three different locations in the Hartford area at prices ranging from $9,300 to $10,900 for sale exclusively to holders of State eligibility certificates.

The building firm is the first large operative builder to make such a unique arrangement with the State, according to Joseph M. Viertel, Vice-President, who announced that the State had advanced a building loan of $527,000 on the first phase of the program, the Tyler Park Homes development in the Blue Hills section of Hartford, and that work on this project would begin immediately.

The second phase of the program, a project to be known as Garfield Park Homes, will get under way in East Hartford in the near future, and a third community will be started later this year in another section of Hartford.

Veterans will be able to purchase a two-story, three-bedroom dwelling in Tyler Park with no down payment and with carrying charges of approximately $64 per month. The homes will occupy plots of approximately 7,500 square feet on Westminster and Andover Streets just west of Cornwall Street and will be priced at $10,900.

Garfield Park Homes will consist of three-bedroom, ranch-type dwellings on plots of approximately 7,000 square feet, priced at $9,900. Carrying charges for these will be about $52 per month.

Plans for the program were drawn up in cooperation with Bernard E. Loshbough, Administrator of the State Housing Authority, and the State Housing Commission consisting of George Carr, Chairman; Francis Ford, Secretary; Jere Flynn, Fulton Kaliger, and Mortimer Hayes.

State financing was arranged by the William D. McCue Company, of New Britain, loan correspondent.

Land planning for all three phases of the program was done by Charles A. Currier & Associates, of Hartford.

Created by the 1949 State Legislature, the home ownership program enables moderate income families, who could not otherwise afford new, modern homes, to buy or build homes of their own through state mortgage loans at 1½% interest. Under the plan, monthly carrying charges will generally average from $11 to $14 less than the payments on ordinary 4½% FHA loans.

To become eligible under the State plan, a family must be improperly housed, have a yearly gross income of less than $2,500 with a $600 additional allowance for each dependent, and have an available net cash worth of less than $3,000.

More than 5,000 persons have qualified for the FHA-insured low-interest loans since the program became effective on Oct. 20.

In commenting on this unique example of government cooperation with private enterprise, Mr. Viertel declared: "We are indeed happy to be in the forefront of the move to break the back of the housing shortage in Connecticut. We feel that the Connecticut plan will be adopted by many other forward-looking States within the next year or two.

"Under this plan," Mr. Viertel pointed out, "financing tools heretofore available only for public housing are now available to private builders, who have already given every indication that they will respond to this stimulus.

"What is all the more remarkable about the plan," Mr. Viertel emphasized, "is the fact that the State has made these favorable terms possible without risk of any sort and without any element of subsidy.

"All the State does is merely lend its credit, which in turn is insured by Federal credit through the FHA, to provide private funds at an extremely low interest rate.

"These funds, which are obtained from private investment bankers through sale of State bonds, are secured at a rate of only one-half to three-quarters of 1%. When the funds, $30,000,000 of which have been authorized, are loaned to private builders and purchasers, the State realizes a profit of $75,000 per year."

The Shapiro firm has erected more than 1,000 dwelling units in Connecticut, including the McKinley Park Homes in Hartford, and the Lincoln Park Homes and three public housing projects in New Britain, in addition to thousands of units in cities throughout the country.

Joins Clifford Murphy

(Special to The Financial Chronicle)

PORTLAND, ME.—Maynard R. Young, Jr., has become affiliated with Clifford J. Murphy Co., 443 Congress Street.

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Utility Earnings in Relation To Investment Values

always available. That is your emergency financial reserve. I stress this factor not as a nicety of financial management but because of its importance in your primary obligation of public service. The measure of service to your customers is far more than the rates he pays, since his rates are affected by many factors, too obvious and numerous to need illustration. This financial reserve, however, provides the ability to keep quality and adequacy of service to the public at top levels because such service is dependent upon facilities, and the necessary facilities can be provided more certainly and when needed if the required capital is available year in and year out, and that means keeping a bonding reserve for rainy days.

The Fear of Equity Dilution

A justification for putting off junior equity building, and one we hear rather frequently these days, is that sale of stock would dilute present earnings prior to the realization of benefits that will result from completion of property additions under way. So bonds are sold to the fullest extent now and stock is planned for later. On paper this appears to be excellent strategy and in the interests of present stockholders. But who knows if that common can be sold later? This procedure is obviously risky because the whole plan is a gamble on the future stock market and means adopting the crystal ball as a basic tool of your financial planning. The fact is that if you and your regulatory bodies have done a good job in maintaining adequate earnings, you shouldn't have to wait for the promised land to sell your stock. Before leaving this subject, I want to make clear I don't suggest that your final objective on capitalization be achieved overnight. You'll do your best job if you do it gradually—but keep doing it—and raise the money as you need it, not tomorrow.

If earnings are adequate to service a sound capitalization, protect reasonably a dividend and attract new capital, are they excessive? Perhaps they may appear to be from time to time if you think solely in terms of a fixed rate of return on your assets. But this matter of earnings can only be considered over a period of time, and there must be some fat years to balance off the lean ones. Going with such longer range view of a fair return are the dual obligations of companies and regulators. Companies must not abuse the privilege of good years and regulatory bodies must think beyond a range of only fair to lean diets. If you both agree on sound objectives that best serve the public and the stockholder in the long run, cooperation in working out the mechanics should not be too hard. I repeat again that the demonstration over a period of time is the determinant of the atmosphere that attracts investors, that creates a confidence in a fair deal ahead. Investors are highly conscious of atmosphere, and intelligent regulatory supervision is a major factor in creating a good atmosphere. Remember, an investor who buys today buys only for the future; the past does him no good, but it does raise weather flags for him to observe.

When I speak of earnings in relation to the investor's desire for continuity of income and reasonable stability, I most certainly don't mean to suggest that earnings should be adjusted from time to time to attempt to stabilize the market for a company's stock. Markets are going to travel up and down and the price of a bond or a stock, no matter how good, is going to move. By the nature of stocks, they will fluctuate more widely and investors appreciate this when they buy them. This you can't control, but you can so conduct your affairs that your stock won't jump the tracks and go plunging around the countryside when general economic conditions create a market movement up or down a grade.

Nor do I suggest a static concept of dividends. Much of the confusion about both fair earnings and proper dividends stems, if my opinion, from past history of financial practices and policies that no longer are with us in the utility industry. The promotion days are over, we're now grown up and our houses are in order. By and large plant accounts and balance sheets are generally on a rather sound basis — in fact, one can hardly doubt that present-day values are substantially higher than the figures your balance sheets show. Assuming, therefore, that this area no longer provides a basis for major regulatory battles, and assuming agreement between regulated and regulator on a proper capitalization, you are then dealing with a rather definite set of facts about your common stock equity and it is here where adequacy of earnings can best be examined. Investors are more and more beginning to think of the stock of a company in terms of a normal or sound earnings and dividend per share. This "feel" or "measure" of a situation isn't quite as much of an arbitrary or intuitive appraisal as it sounds. It evolves by judgment after weighing many factors of background and financial facts. Costs of capital are obviously an important factor but not a mathematical measure and he recognizes that something more than bare costs of capital are needed if he is going to be protected in his equity position. But the investor is not content then to stand still. As his stock earns $1 and pays 70 cents, he is investing another 30 cents, and as this surplus accumulation belonging to him grows, he expects earnings and dividends on it, and he is quite properly entitled to it. This is the way he shares in the growth he makes possible. Management must recognize this and from time to time consider dividend increases—either directly or indirectly as through stock dividends or rights offerings—but wise management will only do so if it is confident the new rate can be maintained under all foreseeable conditions.

Reinvested Earnings

This last factor is a most significant measure of adequacy of earnings. It is the test of whether the company is able to produce additional earnings commensurate with the increases in its capital investment. It is the test of whether the increases in earnings are enough to support the new capital at the going rate. This ability to raise new equity capital is the acid test of your credit standing, and I repeat that your credit is built by prolonged demonstration of adequate earnings. I might add an observation known to most of you—that until quite recently the record of the past decade did not show an ability by your industry to earn an adequate return on new capital employed, and I believe the inability to raise much new common stock capital at satisfactory prices during those years is definitely related to that record. Your ability to get new money now is also related, in my opinion, to the more adequate earnings and the better dividends offered to the investor.

Defining Adequate Earnings

In recent years there have been many rate cases, but the percentage of legal battles in these cases has been decreasing. There seems to be a growing understanding and cooperation between regulators and regulated. The huge amount of financing necessary to pay for your expansion has pointed up the need for looking at earnings in relation to a company's financing requirements, rather than a finding of a theoretical rate of return. In fact, certain commissions are quite clear in flatly saying so. For example, here are the words of the California Public Utilities Commission in their decision of October, 1949, in the Pacific Gas and Electric rate case:

"It is clear that Pacific is faced with the problem of reducing its debt ratio and of obtaining additional sums in substantial amounts from the issue of stock rather than bonds. In our opinion, it is in the public interest that earnings, so far as possible be maintained at a level enabling the utility to service not only the outstanding securities but also those necessary to finance a reasonable expansion program. Giving full consideration to the record herein, we find that a rate of return of 5.9% on the Gas Department rate base should be allowed."

As I read these words, I believe the 5.9% figure is the product of the need rather than the starting point.

And here is what the New York Public Service Commission said in December of 1949 in granting permanent rate increases to Rochester Telephone Corporation, after recognizing the rather high debt ratio and the need for more junior equity:

"If the people of the City of Rochester and surrounding territory are to enjoy the high quality of telephone service to which they are justly entitled, the company must be permitted a standard of earnings which will make investment in its common stock attractive to the present day investor. Any offering of additional common stock of the company for sale to the public can only be made in competition with shares of comparable corporations. It must meet the same tests of financial stability, soundness and dividend yield. An adequate return upon the capital invested is the crux of the problem."

There doesn't seem to be much question as to the approach and the objectives of these two commissions in these decisions. It also seems clear that defining adequacy of earnings in relation to ability to attract new capital is not a radical or pioneering idea any more. But it is a concept that must be further developed as being in the public interest. And above all it must be developed and maintained on a consistent basis for the future, and not pushed into the background when the current expansion and financing bulge has been passed. It is highly important that adequate earnings be maintained in non-financing periods if investor capital is going to be willing when you want it.

There are many men in your industry who have devoted extensive time and thorough thinking to financial matters. The subject covers more than just the issuance of securities for it deals with financial policies concerning capital structure, earnings, dividend policy, depreciation, planning, relations with stockholders and investment channels, and all other matters relating to the financial well being of the company. But perhaps to a majority of the executives in the industry this end of the business is rather new and too often minimized. Prior to the break-up of the holding companies, this financial thinking and direction was largely done by holding company officers while the executives of the operating companies devoted their time to operations. Now most companies must handle financial matters within their own organizations and this should mean spending real time and talent on it continuously. I regret to say that too many companies treat finance as a minor department, a department or a man to be brought into action like a fire department when a new issue looms up. More often than not, one or another of the senior officers suddenly put on their financing caps and answer the bell. In contrast think of the time and talent devoted exclusively to other sides of the business. I have witnessed the agonies of companies short of money when the need was crying, and it's no fun. And no miracle man can solve it overnight. That situation is one that was building up—unnoticed—for years. The important thing is to recognize this need and to take appropriate action. There is good outside advisory help available. Much can be gained by intra-industry studies and discussions and close relationship should be maintained with your regulatory bodies by keeping them advised of your thinking and your problems so you can discuss with them your policies and objectives.

No Fixed Formula of General Application

As much as we all would like to arrive at some simple, definite and easily applied formula that would translate adequate earnings into dollars and cents or a percentage rate of return, it can't be done to fit all companies or even one company at all times. As I have tried to point out, the level of earnings is only a part of the structure and must be complemented and supported by other considerations if you are to erect and maintain your cornerstone of public and investor confidence. Only by thoughtful and continuous attention to the financial side of your affairs, coupled with the fine job you have done and are doing in technical progress and efficiency of operations, can you assure the safety and success of your industry for the future.

Raising Equity Capital

That is the substance of what I have in mind on this matter of adequacy of earnings. But before closing I would like to touch briefly on the subject of raising the money itself. Last year about $340 million of new money was raised by electric companies from the sale of common stocks, this during a year when very substantial amounts of stocks were sold or distributed in connection with holding company divestments. The concern widely felt about the effect on the market of this double-barrelled pressure proved unnecessary. Not only did the market absorb these offerings, but price levels actually rose during the year. However, this fact should not be overlooked. Nearly all companies selling new money common stock issues were able to offer a selling story, either directly or indirectly, of higher anticipated earnings or dividends or both. In many cases the improved earnings outlook was based on rate increases granted and a number of State Commissions clearly showed in their decisions that they understood the problem and investors took quick note of such attitudes.

Barring serious economic reversal, there seems to be little doubt about your ability to raise the equity money needed, provided the requisite earning power is present and such financings are properly set up, organized and handled. The patterns and methods to be employed in such sales are numerous and varied so that you have many alternatives to choose from. One of these alternatives is the competitive bidding procedure which, in my opinion, is generally a serious detriment to the orderly and efficient marketing of equity securities. I am firmly convinced that rules requiring mandatory competitive bidding work against the best interests of your industry. If the members of our industry are not able to make a decent living doing your financing, we do have flexibility in selecting other ways to earn our daily bread and you may have noted that a substantial part of our industry has already turned to other roads as the result of regulatory insistence on such rules, apparently in a blind faith in automatic answers. I believe you should view this with a certain amount of alarm because of its effect on you.

The Menace of Competitive Bidding

Your situation is different since you have money to raise and you can't decide to go fishing instead. Consequently, it seems to me it is more your fight than ours to wage war against rules that require compulsory bidding, particularly for equity securities. Recognize such rules for what they are — an easy way to avoid intelligent appraisal of the work that must be done. You can do the most effective job in bringing a proper understanding of the problems involved to the attention of your elected representatives in government, your State regulatory bodies, the Federal Power Commission and the Securities and Exchange Commission. I refer not only to rules for mandatory sealed bids, but also to its first cousin, the concept of "maintenance of competitive conditions" or "shopping around." This has all the bad features of sealed bids plus a few vices of its own.

It has been noted that in the past year certain issues have been sold at competitive bidding at ridiculously low underwriting costs. I don't believe this proved anything about bidding except that it works at times. Yet you know as well as I do that real distribution can't be effected year in and year out on this basis. I've been asked why it was done, what kind of thinking our industry used. My only answer is that I believe our industry priced the risks in terms of a widespread bullish feeling on the utility equity market. One result of this experience of bidding as a gamble on the stock market has been a further turning away from new issue financing by many distributing dealers. Perhaps the return of more realistic thinking must await a disaster for some one.

Keep in mind that for the most part junior equities must be sold to individual investors, that this type of selling requires educational work with the distributors of securities, namely, the many local dealers, and a real effort on their part to educate the prospective investor on the merits and attractiveness of the particular stock being offered. This is quite a different thing from the sale of senior securities to institutional investors where sales are dependent solely on price and availability of funds. The task of selling equity securities and selling them well is time-consuming and expensive, but doing it well is extremely important. The proper handling of this equity financing is the key to the substantial market available. So even if you feel you want to take advantage of the bidding device at appropriate times, you should fight to eliminate mandatory rules calling for it so that you will at least have the flexibility of choice at the time you want to undertake your financing.

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How Safe Are Mortgages?

losses for mortgage lenders in the period ahead?

Factors that must be taken into consideration in appraising the probable severity of future depressions are:

(1) *The effective measures that have been taken to prevent future commercial bank failures.* Collapse of the commercial banking system was probably the chief reason why the great depression of the 1930's was so much more severe than earlier depressions in this century.

(2) *Limitations on security loans.* Expansion of security loans by many billions of dollars intensified the boom of the late 1920's, while forced repayment of these loans made the subsequent deflation and depression so much more drastic.

(3) *The support of farm prices.* This makes unlikely a repetition of the extreme deflation to which agriculture was subjected in the 1930's, with severe adverse repercussions upon the whole economy.

(4) *The evident determination of government to lessen the amplitude of business fluctuations for the future.*

Professor John Lintner, in his study of the experience of mutual savings banks in Massachusetts, found that net losses on mortgage loans averaged 1.17% per annum in the period 1931 to 1945, but less than 0.1% per annum in the era 1880-1925, which was marked by no such drastic depression as that of the 1930's, but by four minor depressions. We may assume, therefore, that if future business depressions are going to be of the milder variety encountered in this earlier period, potential losses on mortgages will be correspondingly more moderate.

Overproduction of Homes

It is possible, of course, that future depressions will be less severe on the whole, but that home building may be so largely overdone during the current construction boom that realty values may again be hard hit, causing relatively heavy losses to mortgage lenders.

The post-World War II building boom got into its stride in 1947, when 849,000 non-farm dwelling units were started. In 1949, more than 1,000,000 dwelling units were started for the first time. We are now in the fourth year of this boom, and it is probable that about 1,000,000 units will again be started in 1950.

A great difference between building and other industries is the very small number of dwellings that are demolished or destroyed each year. The figure is estimated by the Department of Commerce at only about 50 000 per annum, or 5% of the current level of new construction. Hence, a sustained high level of new construction is bound in time to increase the housing inventory to a point where overproduction will occur.

Furthermore, the supply of housing has been increased not only by new building, but also by conversion of existing structures into a larger number of dwelling units, by the use of trailers, etc. The Department of Commerce estimates that about 400,000 additional dwelling units have been created in each of the past three years by such measures, and many of these represent a permanent addition to the dwelling supply.

But this high rate of home building has been readily absorbed because of the abnormally high marriage rate and the undoubling of families that had been living in the same households. Undoubling always occurs in a period of prosperity. To date, there has been no question of an overproduction of housing. The marriage rate is now returning to normal, however, and the number of married couples sharing dwellings of other persons is today back to the 1940 level. Nevertheless, with sustained prosperity, the Department of Commerce estimates that the deferred demand for dwellings still aggregated 1.8 million units at the beginning of this year. Of this total, 100,000 represents anticipated above-normal marriages, 650,000 further undoubling of married couples, 100,000 further undoubling of single persons, and 1,000,000 to restore a normal 5% vacancy ratio for the nation's home supply as compared with a recent ratio of 2.5%. Added to the 535,000 dwellings required annually because of the estimated normal marriage rate, these figures point to an aggregate demand for upwards of 1,000,000 new dwelling units yearly for the next three years, even apart from replacement of present temporary type dwellings by more permanent units. At the present rate of progress in the public housing program, the great bulk of this new residential program will have to be privately financed.

Should a high level of building continue for three more years, by the end of that time the inventory of housing should be more than ample, and any business setback could produce a surplus.

In the light of these figures, most of us would probably go along with the conclusion reached in the Survey of Current Business that "the remaining backlog of demand for homes is still large and appears sufficient to warrant construction close to the recent yearly rates for a considerable period, although probably not extending beyond three years. Nevertheless, it is not too early to consider the implications of the elimination of war-induced shortages."

Assuming favorable conditions continue to prevail in other segments of the economy, home building could continue at a relatively high level through 1952. By that time, however, the real estate situation would have become considerably more vulnerable, and the risk of loss to mortgage lenders correspondingly greater. In the meanwhile, outstanding mortgages would gradually acquire a stronger position through amortization payments.

Elements of Weakness

Far-reaching changes have occurred in mortgage lending. These involve elements of weakness, as well as of strength. Full account of these changed conditions must be taken, if we are to appraise realistically the risks involved in present-day mortgage lending.

The elements of weakness to be considered include:

1. More than half the mortgages now held have been placed during the past five years of high realty prices. An even larger proportion will be relatively new mortgages by 1952, if the current rate of mortgage lending continues. Losses were far greater in the 1930's on loans placed in 1927-29 than on those placed in earlier years.

2. The rise in construction costs has been greater during the current boom than in the building boom of the 1920's.

3. The ratio of mortgage loans to property values has increased.

4. The average term of present mortgage debt has been lengthened.

5. Mounting municipal debts and rapidly expanding municipal services could result in material increases in taxes upon realty in the future.

6. Public housing programs and artificial stimuli of private building by government aids add to the danger of an eventual overproduction of housing.

Elements of Strength

As against these elements of relative weakness in the present mortgage structure, there are other notable factors of strength. These include:

1. The systematic amortization of principal which is almost universal today, assuring gradual reduction in the face amount of mortgages to keep pace with any future decline in realty values that is not too rapid.

2. Placing of home mortgage service on a regular monthly basis, lessening the burden on the mortgagor and giving him no financial advantage when he surrenders his house and moves into rented quarters involving a similar monthly charge.

3. The lower level of interest rates, which lessens the burden of mortgage debts to the obligors.

4. Elimination for the most part of second and other junior mortgages, which greatly added to the burden of realty owners in the past, and often proved the precipitating factor in defaults and foreclosures.

5. Rent ceilings have discouraged undue increases in values and in mortgage loans on older structures, such as occurred in the 1920's. Whenever ceilings are relaxed, rents and values of most such older buildings may rise.

6. Insurance of an increasing proportion of outstanding mortgages by FHA and partial guarantees of others by the VA.

Minimizing Risks on Mortgage Loans

In the light of all the factors considered, we must conclude that losses on mortgage loans will recur, but that they are unlikely to attain again in the foreseeable future the very serious proportions of the 1930's. Furthermore, it is reasonable to expect the current boom to go on for two or three years more, giving additional time in which to amortize outstanding mortgages and to weed weak situations out of portfolios as opportunity to do so offers.

In anticipation of less favorable real estate conditions in the future, mortgage lenders are well advised to pursue policies now that will minimize the risk of future losses. One fundamental objective of such policies should be to up-grade mortgage loans acquired in the latter phases of a building boom, since past experience has shown that losses tend to be highest on these loans. Another is to make provision now, well in advance, for probable future losses.

One obvious way to upgrade mortgages is to maintain and improve selection standards. A number of mortgage lenders, to achieve this objective, favor conventional loans on desirable older structures at a conservative ratio to current income, which is based on stabilized and for the most part controlled rents. With the current keen competition for loans, there is strong temptation at times to compromise with standards. But logic and experience both tell us that it is better to tighten than to relax standards at this phase of a building boom.

A second way to upgrade a mortgage portfolio is to invest more largely in mortgages insured by FHA or guaranteed by the VA. On such mortgages, losses are limited to foreclosure costs, interest that may be lost during foreclosure, and possible expenses in rehabilitating foreclosed properties that do not meet standards set by the insuring authorities. About 45% of the mortgages currently being acquired by all financial institutions are insured by the FHA or partially guaranteed by the VA, as compared with 35% a year ago, showing the growing reliance of lenders generally upon such protection against losses as the building boom reaches an advanced phase. Mutual savings banks in New York will be in position to acquire insured mortgages more readily when the law permitting such loans anywhere in the country becomes effective on July 1 of this year.

A third basic policy strongly backed by experience is the setting aside of reserves against prospective losses. Dr. John Lintner found that a reserve of ½ of 1% per annum, set up on residential loans which were made between 1918 and 1931, would have sufficed to cover all losses incurred on such loans during the great depression.

The policy generally pursued in New York State is to set aside a reserve of ½ of 1% against conventional mortgages, until it equals 10% of such mortgages held. A reserve of ¼ of 1%, with a maximum of 5%, is being generally set aside yearly where mortgages have a VA guarantee, or where the bulk of a portfolio of conventional loans consists of liens on one to two family homes maturing in 15 years or less. On FHA mortgages, which in case of difficulty are exchangeable for United States Government obligations, an aggregate reserve of 1% is usually set up to cover foreclosure and other possible costs. These reserves should prove ample to cover all prospective losses, in view of the factors considered. Consideration should be given to the suggestion for extending the period over which premiums on FHA mortgages must be amortized from the present three years to a longer period, to encourage savings banks to acquire a larger proportion of mortgages enjoying insurance protection.

Through careful mortgage selection, securing FHA insurance or VA guarantees on a large part of the mortgages being currently acquired, and setting aside reserves to provide in advance for possible future losses, mutual savings banks are able to place themselves in position to cope with a recurrence of losses on mortgage loans. And we would be less than realistic if we do not ready ourselves for losses whenever the building boom has run its course and economic conditions generally become less favorable.

National City Quarter Century Club Dinner

The 14th annual dinner of the Quarter Century Club of The National City Bank of New York and City Bank Farmers Trust Company was held April 20th at the Hotel Astor. On the dais, as hosts, were Wm. Gage Brady, Jr., Chairman of the Board; W. Randolph Burgess, Chairman of the Executive Committee of the Bank and Chairman of the Board of the Trust Company; Howard C. Sheperd, President National City Bank, and Lindsay Bradford, President of City Bank Farmers Trust Company.

Total membership of Quarter Century Club, including overseas branches, is 1,668, representing an equivalent of about one out of every eight of those now actively employed in City Bank. New members received into the Club during the past year number 175.

Walter J. Brotherton was Chairman of the Quarter Century Club Committee, consisting of Edward F. Mitchell, Harry P. Wehr and Randolph S. Merrill.

With A. L. Albee

(Special to THE FINANCIAL CHRONICLE)

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As We See It

In general appeal to all the country, the Secretary adds:

"We are faced with a threat not only to our country but to the civilization in which we live. . . . There is no longer any difference between foreign questions and domestic questions. When we consider any matter, whether it is the size of the budget or the amount of taxes we pay, or the regulation of our commerce or the regulation of immigration, or military policy or foreign aid, it is all part of the same thing."

Some Things Must Be Said

The President, only a few days earlier, had come forward with the conclusion that "this [the contest with communism] is a struggle, above all else, for the minds of men. . . . We must make ourselves known as we really are—not as communist propaganda pictures us. We must pool our efforts with those of the other free peoples in a sustained, intensified program to promote the cause of freedom against the propaganda of slavery. We must make ourselves heard round the world in a great campaign of truth." And one day later: "It took us two wars and 30 years to find out that our place in the world was one of leadership."

We are well aware, of course, that after such utterances as these by the Chief Executive of the nation and his chief lieutenant we run real risk of being accused by many of failing to contribute our part to a united front against foreign aggression should we do other than to utter a pious amen. The fact is, however, that we find it impossible to remain silent about many things without losing our own self-respect and without a feeling of having failed to do for this country and its people that which we feel it a plain duty to do. It is obvious, of course, that the danger from the Kremlin is greater than any which existed in the person of Hitler about which so much was heard a decade or a little more ago.

Our Own Failure

Whether that danger is really as great as we are asked to believe, is another question, a subject about which we express no opinion at this time. What is clear is that the communists in the Kremlin have—indeed, always have had—ideas about a certain type of "conquest" of the entire world. They have in past years never made any great secret of it. They would not, of course, hesitate to undertake consummation of that dream by direct military attack whenever they feel well assured of the result, but the basic idea of its type of world domination does not necessarily include marching armies and roaring cannon. They would prefer other tactics and other techniques—as the revelations in the courts of this country and, for that matter, outside of the courts well attest. In a sense, and a very real sense, the President is correct when he says that it is a struggle "for the minds of men," although, obviously, force and violence are not far removed from the communist tactics.

Where the President errs, we believe, and where the Secretary of State is wanting, is in the apparent supposition that by trick phrase, by a form of economic bribery, or by expanding our chests as we march, the onslaught of the Kremlin can be checked and ultimately defeated. Communism as a world force may presently spend itself; we suspect that it will or would should it be combated intelligently and shrewdly. The fact remains—and it is with deep regret that we must say it—that recent revelations add to the impression long given by the general course of national policy that our own incompetence, misconceptions (often not very foreign to communistic doctrines themselves) and aggressiveness in the cause of absurdly unsound domestic as well as foreign policy are our chief danger.

The Milk in the Cocoanut

We could not hope to give more effective expression of some of these basic ideas which have been plaguing us of late than by using the phrases spoken late last week by the President of the United States Steel Corp. Here, in part, is what Mr. Fairless had to say:

"I do not fear socialism because in Europe today socialism is living on the dole and America is the only country able to foot the bill.

"But when somebody in Washington starts telling how he favors free enterprise and how he proposes to save it, I shake, I wonder why the self-appointed saviors always miss the point that ours is the only system not controlled by power-hungry politicians who would hack it to death on the pretext of defending its immortal soul.

"I am convinced that if these misguided men have their way freedom of opportunity, enterprise and initiative will vanish from the earth.

"I have great faith in the plain cracker-barrel common sense of the American people and so long as they are permitted to know the facts I have no fear that they will allow our system to be engulfed by foreign 'isms.'

"I do not fear communism because every day proves its utter failure.

* * *

"Our system always has defended itself successfully abroad but I do not know how it can be protected against its friends in Washington."

To some it may appear inappropriate to give expression to such convictions at this particular moment. To us it appears not only appropriate, but essential. This struggle with communism will not be won in a day, in any event. It will be greatly prolonged by tactics now in use. We cannot effectively fight collectivism by conceding half its indefensible claims or by watering down our own virility with many of its basic notions. If the time ever comes when we must face the Kremlin in a "hot war," we must be as economically strong as possible—and that we cannot do by following the methods which have been responsible for Russia's weakness. What we are really fighting for is our own system of life; it cannot be preserved by surrender of its basic elements.

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Hacking Away at the Free Enterprise System

sented in numerous court actions, I don't suppose there is a single statistic about United States Steel which could possibly be of any real interest or significance to anyone, that is not already a matter of public record. And yet to this day, most of our inquisitors remain blissfully ignorant of the most important fact of all—how steel is made.

Among all the members of all the public bodies we have faced in the past dozen years, I don't suppose that more than two or three, at the outside, have even been inside a steel plant, or have ever seen for themselves what a gigantic operation steel-making is. Yet until he has seen these things for himself, I do not believe that anyone has any right to tell anybody how big a steel company should be; for any views he may hold on the subject can hardly be regarded as the reasoned opinion of a qualified and competent authority.

During the hearings next week, I intend to invite Mr. Celler and the members of his committee to visit our steel plants. I hope most earnestly that they will accept that invitation; for, by doing so, I believe they could add richly to public knowledge and public understanding of this whole controversial issue of "bigness."

I am aware, however, that such action by them would constitute a radical departure from established Congressional practice as I have seen it. So far as I can discover from personal experience, Congressional investigations of businessmen follow a standardized pattern that has not been in vogue in America since the old days of the western frontier, when the established procedure was to shoot first and ask questions afterward.

Nowadays, the Chairman sends you a letter "inviting" you to appear before his committee on a certain date. Then he starts issuing a barrage of statements to the newspapers telling the world what a dangerous and nefarious character you are. When you no longer have a friend left in the world, the hearing begins, and the Chairman starts out by reading a statement in which he finds you guilty and pronounces sentence upon you. Then he announces that the committee will proceed to a full and "impartial" investigation of the facts, which seems to be a great waste of everybody's time, because when the evidence has been fully presented, the Chairman ignores it completely, writes a report setting forth all of his preconceived notions, and quotes at length from his opening statement to prove he was right all the time.

What "Public Interest" Is Served?

Throughout the proceedings, of course, there is a great deal of talk about the "public interest," but I cannot help wondering what "public interest" a committee is serving when it conceals, distorts, and openly mis-states the facts—the basic, all-important facts—which the American people must have if they are to plan their economic future intelligently and wisely. Now, gentlemen, I am not an alarmist. I don't run around crying "wolf." I never see bogeys under the bed—and seldom see them on a golf course, these days. But I am gravely and sincerely disturbed by what I have seen in Washington.

In my opinion, our American economic system is in deadlier peril today than it has ever been in my lifetime. I say that knowing that it has always defended itself successfully against its enemies abroad; but I honestly do not know how it can be protected against its self-styled "friends" in Washington who would literally hack it to death on the pretext of saving its immortal soul. I am convinced that if these misguided planners and politically-ambitious officeholders have their way, three of our most precious liberties — freedom of opportunity, freedom of initiative, and freedom of enterprise, will vanish from this earth.

I have always had great faith in the plain, cracker-barrel, common-sense of the American people, and so long as they are permitted to know the facts, I have no fear that they will ever allow their economic system to be engulfed by foreign "isms" and ideologies.

I do not fear Communism because every passing day proves its utter failure. The American people know that if Communism were really working successfully there would be no need for police state oppression, phony trials and slave labor camps behind the iron curtain.

I do not fear Fascism because it has killed the three great nations which adopted it. The American people want no part of any economic system that feeds only upon war and conquest.

I do not fear outright Socialism because, in Europe today, Socialism itself is living on the dole, and America is the only country on earth that is able to foot the bill for it. No American taxpayer is likely to fall for that kind of an economic system, at least until he has found some other nation that is rich enough and generous enough to indulge him in his folly.

Killing Free Enterprise

But when somebody in Washington starts telling me how much he loves the Free Enterprise system and how he proposes to save it from itself, I shake in my very shoes. I wonder why it is that these self-appointed saviours of our national welfare always seem to miss the point—the one magnificent lesson that should be apparent to anyone who looks about him at the world today.

The point is that our American system of Free Competitive Enterprise is the only one left in the world that is NOT controlled by power-hungry politicians; and whether you call it the Square Deal, the Fair Deal, the New Deal or just plain Federal Regulation, the fact remains that once the dead hand of politics gets its convulsive grip on American business and industry, free competition will be strangled, and our economic system will be no different — and no more successful — than those noble experiments which are crumbling into dust in Europe.

Of one thing I am convinced. The American people will never knowingly travel that foreign road to economic disaster. They have built the most magnificent industrial machine this world has ever seen and they are certainly not going to wreck it that way as long as the road itself is clearly marked by signposts which honestly reveal its destination.

But in Washington today there are theorists and bureaucrats and economists and Congressmen who are switching the signs. They are trying to take down all the honest guideposts and put up others reading: "Detour—to Utopia."

To my way of thinking, gentlemen, that is nothing less than economic murder; and it is hard for me to believe that all of these signpost-jugglers are so innocent and so credulous that they can sincerely suppose they are pointing the way to salvation.

Separating "Big" and "Little" Business

We are all riding in the same machine, and we are all going to end up in the same place whether we like it or not. So I think it might be wise indeed to examine the signposts closely. Now it seems to me that the most dangerous deception which has been practiced upon us is the fallacy that our whole economy can be divided into two parts labeled "big" and "little" business. This deception has been used so long and has become so familiar to us that we have begun to accept it, unthinkingly, and without question. Because some statistician has arbitrarily drawn an entirely imaginary line between companies employing more or less than 500 persons, we argue about big business and little business as though they were two hostile armies warring against each other. And so we fall into the trap that Wash-

ington has set for us, by creating class distinction in the industrial world.

How silly that concept is, if we stop to analyze it. There are 4,000,000 individual business units in this country and they are all part and parcel of one great industrial machine. They are very much like the parts of that cold reducing mill I was watching this morning. Some of them were big and some of them were little. There were tiny electrical contacts and huge steel rolls that weighed several tons each. Some parts ran at high speed, while others ran slower; but all of them were intricately fitted together, and each had a particular job to do. So this mechanical giant went grinding along, rolling the hard, tough steel into strips, as smoothly and as easily as Grandmother used to roll pie crust.

But of what use would that machine be to anybody if our Washington theorists once went to work on it? Our economists would cut it up into half-a-dozen pieces because it is so big. Our statisticians would sort out all the parts into neat piles according to size. Some members of Congress would pass a law decreeing that all the parts must be the same size, or that all must run at exactly the same speed. And in the end, there would be no machine at all. All the parts—the big parts and the little parts—would be junk.

So before the jugglers start taking our American industrial machine apart, there is one simple question I want to address to them. I just want to know **who** is going to put Humpty-Dumpty together again.

Of course, no one **ought** to understand all of this better than our government because never, probably has the complete interdependence of so-called "big" and "little" business been as clearly demonstrated as it was during the recent war when this great industrial machine of ours shattered all records, and when every part and gear and piston in it was running at break-neck speed.

That was the first time our jugglers had ever had any real opportunity to put their theories to the test and to try to drive the wedge of class distinction into the machinery. They did their best.

They persuaded Congress to set up a special agency whose job it was to funnel war contracts into the hands of "small business." On many items, the Army and Navy agreed to pay small businessmen as much as 15% more than they paid "big business" for the same work. And some government planners so far forgot themselves as to look with favor upon the idea of a **merger.** Heresy of heresies! They proposed to consolidate the efforts of all the small machine shops in an entire region in the hope of creating an industrial establishment big enough to handle large prime contracts.

So what happened?

You gentlemen know the answer as well as I do. When the shooting was over, we found that in spite of all the futile efforts of all the theorists in Washington, 75% of the prime contracts had gone — of necessity — to the 100 largest manufacturing companies in the land.

The theorists were terribly unhappy about it, of course, and great were their lamentations. They could only see it one way, and without bothering even to consult the facts, they jumped despondently to the conclusion that the big had gotten richer and the small had gotten poorer.

They were wrong.

Over in the Department of Commerce and in the Federal Reserve Board, research experts went quietly to work with their calculating machines and came up wth some amazing facts.

It was true, they found, that "big business" had been handed the lion's share of the war contracts; but it was **small business** that ended up by scoring the greatest increase in sales, in profits, and in assets. Small business had gained in size and it had gained in wealth at a vastly greater rate than the so-called industrial giants.

The explanation, of course, was all very simple. Big business had merely succeeded in doing what the government had failed to do. It had loaded up small business with contracts—just as it always does ,in peace or in war.

It did the biggest jobs on its big machines in its own big plants; but it sub-contracted the other jobs that could be done on smaller machines in smaller plants. It took a big company to deliver a finished B-29, but it took hundreds of companies of every conceivable size to make it—to make all the parts and materials that went into it. Which of these companies did the most important part of the job? . . . The big ones? . . . The little ones? Gentlemen, you might as well ask which soldier won the war.

So let us beware of the dangerous and deceptive signpost that would send big and little business down two separate and divergent roads. It is just as dishonest as the second of these fatal frauds that the jugglers would perpetrate upon us—the one they call "monopoly."

No "Monopoly" in Steel

Now "monopoly" is a common, and highly-unsavory word that all of us understand. Properly employed, it is a useful noun meaning the exact opposite of competition; but our jugglers do not use it as a noun—they use it as an epithet which they hurl freely and with great abandon at any large and successful enterprise on which they may hope to move in.

With impeccable logic, they declare that it is the inalienable right of any man to try to establish himself in any business he wants—even the steel business.

And that is undeniably true.

But then, with fallacious cunning, they insist that he can't go into the steel business because "the monopoly" won't let him.

And that is utterly, completely, absolutely and ridiculously false.

What is this "monopoly power" that big business is supposed to possess? What power does United States Steel have, for example, to prevent some intrepid small businessman from setting up shop in the steel business? How could we go about it? What could we do?

Those are questions which our Washington critics, I notice, conveniently ignore; and until somebody answers them for me, I frankly confess that I haven't the slightest idea how I can keep any would-be competitor out of the field. I know of no way to keep him from getting the raw materials he will need or from buying the furnaces, mills and plants he must have. And if he can beat us out on quality, price, or service, I know of no power whatever that can keep him from taking our customers away from us.

No, gentlemen, it isn't "monopoly power" that keeps any small businessman from making steel today. It is simply a little matter of money.

A blast furnace alone will cost him about $12 million, and when he gets his coke ovens, open hearths, his mills, his power and fuel lines and all his auxiliary equipment, he might start turning out hot-rolled bars for an investment of $50 million or so. If he wants to make light plates and cold-reduced sheets, his plant will cost him something over $200 million at today's prices.

And if any businessman has that kind of money, there is nothing "small" about him—not in my book, at least, for he would be one of the world's richest men, and his business would be one of the very largest manufacturing companies in the United States.

Even a large new corporation, with plenty of capital behind it, might hesitate prudently before venturing into the business of making steel—not because "monopoly" exists in the industry, but for exactly the opposite reason—because of the competition which prevails in it today.

In the face of this competition, any newcomer would be at a great disadvantage, because his plant and equipment will cost him from two to three times as much as his competitors had to pay for the same facilities 10 years ago—before a quarter-trillion dollar national debt, and a governmental weakness for deficit spending, transformed the almighty dollar into the not-so-almighty sixty-cent piece.

But just because a small businessman may not be able to go into the business of **making** steel, that does not mean that he cannot go into the steel business. Not at all. He can set himself up in the business of **fabricating** steel whenever and wherever he wishes, and for a relatively small capital investment, he can turn out any one or more among thousands of useful, salable, profitable products.

Sometimes I think our Washington theorists ought to turn back to their own governmental records and find out what has really been happening in the steel industry during the past generation. Thirty-three years ago, it is true, there were nearly twice as many establishments **making** steel as there are now, but their product was so crude by comparison with today's steels, that the opportunities for **fabricating** it were limited. Today fewer companies make the steel, but 12,000 more establishments are able to fabricate it. For every steel-making company that has disappeared, 60 new metal-fabricating plants have been successfully established. And for every wage earner who had a job in the industry 33 years ago, three are employed today.

Now, is that bad? Is that "monopoly"?

"Giantism" in Steel Industry

Well, let's look at another trick word the jugglers have been palming off on us — "giantism." It's a beauty. It's effective. Nobody loves a giant, and why should they? From the earliest days of our childhood we have thought of giants as monstrous, wicked, bloodthirsty creatures. So, naturally, a giant corporation must be evil. It's all very simple; but what are the facts? How many big companies are there?

According to the government's latest count there are nearly 7,500 of them in America today. A century ago there were none. But wait a minute! For every single company that has grown big in this country during the past hundred years, 440 healthy new enterprises have been born. And, gentlemen: That didn't just **happen.** The truth is that had it not been for the fact that there **are** giants, most of these small establishments could never have existed at all, and could not, today, survive.

No, there is nothing sinful about size, and there should be nothing unlawful about it either.

The **size** of any company depends, in the first instance, upon the product which it intends to manufacture—upon the amount of money it is going to take to buy the plants, machines and tools that will be necessary to produce that product efficiently and competitively. From that point on, the **growth** of the company depends on its customers. If they like the product and want to buy more of it, the company will have to expand in order to meet their demands. If they don't like the product there is no way on earth that the company can force them to buy, no matter how big and how powerful it may be.

That is why today's giant must be useful, helpful, and necessary or he simply goes out of business because he failed to serve his customers to their satisfaction, and therefore failed to serve the public interest.

So when our Washington theorists attempt to place an arbitrary limit on size, they are saying, in effect, that certain products shall not be manufactured at all—except, perhaps, by the government. And when they try to put a limit on growth, they are denying to the American people the right to buy as much as they want of a particular company's product.

For my part, I don't believe that the American people will ever stand for that kind of a restricted, second-class economy.

Steel Industry Not Concentrated

Finally, there is one more treacherous signpost which we see everywhere these days and which menaces all of us far more seriously than many of us may suppose. The jugglers call it "concentration." It is based on the fallacy that there is something evil and dangerous about the fact that four, or eight, or 16, or 50 companies, do 40 or 60 or 80% of the business in their particular industry.

Well, of course they do—and they always will as long as free and honest competition exists in our American economy. In industry or in the field of sports, concentration is the **result** of competition. If the top teams in any baseball league don't win the highest percentage of the games, how are they going to stay on top? And when the top companies in any industry win the highest percentage of the customers, they naturally are going to have the highest percentage of the business.

Any time you see any league or any industry where everybody has come out even, you can be reasonably sure that somehow and somewhere the boys got together in the back room, plugged up the keyhole, and indulged in a little high-handed conspiracy, otherwise known as the "fix." How else could it happen?

That's why there always is and always must be a certain amount of this so-called "concentration" in every American industry; but our inquisitors in Washington insist that "concentration" is especially marked in the steel industry. And gentlemen, I want to take that one apart right here and now, because I think the facts will amaze you.

In the first place, let me say that the steel industry has no special characteristics that could conceivably justify its classification as a public utility, or that could possbily warrant this feverish desire on the part of our Washington Bureaucrats to subject it to Federal regulation.

Now of **course** steel is vitally necessary to our people and our national economy. So are oil and coal and automobiles, and rubber and lumber and glass, and refrigerators and cookstoves and radios. But certainly steel is no more necessary than clothing, and it is even less necessary than food. If the Washington jugglers are going to regulate every product that is necessary to our national economy, **then, gentlemen, they are going to regulate every single business in America.** Including yours!

And if they are going to break up every industry which is as highly "concentrated" as the steel industry, **nearly half of the units in our American industrial machine will be torn apart.**

Yes. That is the exact, indisputable fact.

The United States Census Bureau has recently completed its latest count of more than 400 American industries, and has reported on the degree of so-called "concentration" in each. And remember, I am speaking of entire **industries** — not individual companies.

Now how many of these industries do you think are more highly "concentrated" than the steel industry? Three? . . . Ten? . . . Fifty?

Well, guess again. The Census Bureau's own report on "steel works and rolling mills" shows that this industry is not anywhere near the top at all. It is in the great middle, along with the great body of all American industries. In fact, it stands 174th on the list. **So there are 173 entire industries which are more highly concentrated than steel.**

Now what are some of these industries where the "concentration of power" in the hands of the "Big Four" is so great as to menace our national welfare and to arrest the pursuit of happiness?

You'd never guess.

There is the pretzel industry for one. Honestly, that's right. I mean it.

And there are the candle-makers too.

Then there are straw hats, and streetcars, breakfast foods and chewing tobacco, wallpaper and cigar boxes, lead pencils and pianos. Then we have women's neckwear and boys' underwear. And, oh yes—window shades and garters.

Now if every one of these — plus 159 other industries—is more highly "concentrated" than steel, and if "concentration" is really as wicked as our theorists tell us it is, I can't for the life of me, understand why all these high-priced Congressional Committees are wasting their time on me.

U. S. Steel a Target

Seriously, gentlemen, make no mistake about it. U. S. Steel has been singled out as the target for this present attack on "bigness"—but only temporarily, and if our Washington jugglers now succeed in placing U. S. Steel on trial before the court of public opinion, then they also will have managed to put every successful, growing business in America on trial beside it.

So I wonder if it isn't time to have an entirely new Congressional investigation—one that will hale before it all the other Government agencies and Congressional investigating committees which seem to be trying so desperately to destroy the finest and the only successful economic system that exists in the world today.

I wonder if it isn't time someone took these gentlemen aside and found out just what public interest **they** are serving — and why?

In short, I wonder if it isn't time to get back on our high-speed highway to progress and growth and production, before we get mired and lost forever on a detour to Utopia!

State Bond & Mtg. Adds

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, MINN. — Earl J. Berkeland, Arnold H. Boelke, and Douglas S. Farnam have been added to the staff of State Bond & Mortgage Co., 26½ North Minnesota Street.

Midwest Exch. Member

CHICAGO, ILL.—The Executive Committee of the Midwest Stock Exchange has elected to membership Frederic P. Barnes of H. O. Peet & Company, Kansas City, Missouri, it was announced.

With Fusz-Schmelzle

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, ILL.—Homer G. Bradney is associated with Fusz-Schmelzle & Co. of St. Louis.

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Fundamental Factors Pertaining to Electric Utilities

Probably the capital structure of the electric utility industry, say by the end of 1951, would consist of about 49½% long-term debt, about 14½% preferred stock and about 36% common stock equity, still leaving a well-balanced capital structure. The capital structure of individual companies will, of course, show considerable variation as compared with the over-all composite picture and this problem must, of course, be watched as far as individual companies are concerned. The raising of equity capital with which to keep the capital structure in balance, should not be difficult. Incidentally, in 1949 the market had to absorb about $412,277,000 of new money utility common stock offerings on top of some $112,000,000 of utility commons sold for the account of holding companies in connection with distribution or dissolution proceedings. The over-all total from these sources was more than $524,000,000 of utility common stocks coming on the market. This was a very substantial amount of new utility common stocks that had to be absorbed by the market last year and the performance of the utility commons marketwise was remarkably good when this factor is taken into account. The pressure from utility commons coming on the market through dissolution proceedings of holding companies is now mostly behind us.

It may be of interest at this point to say something about the Mortgage Bond Indentures. One factor which we have been watching is the amount of depreciation cash frozen by the applicable indenture provisions. The usual formula whereby a depreciation or maintenance fund is set up on the basis of 15% of gross revenue, less maintenance, does not accomplish the full purpose in many cases. For many years we have been advocating that depreciation is a function of property rather than of gross revenue and that depreciation provisions in the Indenture should be geared to a percentage of property value rather than revenues. We have felt (and this observation is obvious) that property built out of depreciation cash should not be made the basis for issuing additional bonds because if this is permitted, then the position of the mortgage is impaired over a period of years. In brief, the adequacy of the depreciation fund and the freezing of a corresponding amount of gross additions against the issuance of bonds is an important point to watch in analyzing indentures.

While the electric utility industry is still dynamic, it should be realized that the usual 30 or 35-year bond maturities encompass a rather long period. The possibility of the electric industry reaching a maturity stage, particularly by the time these bonds have to be refunded, should not be overlooked. Therefore, as a safeguard, a cash sinking fund is a desirable ingredient toward the quality of the bond issue. It would seem to us that the least a bond investor should expect is that the combination of freezing an adequate amount of depreciation, plus the sinking fund, should be sufficiently large to provide gradual improvement in the fundamental position of the mortgage over the life of the bonds. Indentures have undergone considerable modernization and improvement in the past 10 years and their provisions now are generally more protective to bondholders than was formerly the case, but the depreciation fund and sinking fund provisions could still stand some further improvement, if the interests of the bondholders are to be guarded.

Of course, most of us will not be here 30 years from now to worry about this problem. A complete analysis of the situation, however, should take into account not only the present quality of the bond but its ultimate quality as well, particularly from the standpoint of the utility's ability to refund the issue at maturity.

The electric utility industry is a continuing business as compared with the natural gas industry. In the case of the natural gas industry, its economic life is dependent entirely on the life of the gas reserves. When the situation is viewed from this standpoint, then it is obvious that natural gas bonds and debentures should have a sinking fund which will pay off the entire issue well ahead of the anticipated exhaustion of the gas reserves in each particular situation. In view of the relatively low yields obtainable by holders of the senior securities, full payoff sinking funds well within the visible life of the gas reserves are very essential. In such cases it is the junior security holders that should take the gamble because they in turn have the opportunity of a more profitable yield and market appreciation as compared to the relatively fixed position of the senior security holders.

Distribution of Electric Revenue Dollars

We shall now touch upon the outlook for the electric utility industry, but before doing so it may be well first to consider the changes which have occurred in the distribution of the electric revenue dollar.

	Percent of Operating Revenue				
	1940	1946	1947	1948	*1949
Salaries and wages	19.5	18.5	20.6	20.4	20.3
Fuel	7.3	13.1	16.4	19.3	16.5
Other operating expenses	8.6	10.9	10.2	10.6	10.6
Depreciation	11.0	9.9	9.4	9.1	9.1
Fixed charges	13.6	8.0	6.8	6.1	6.4
Taxes	17.6	19.6	18.4	17.8	18.9
Dividends and surplus	22.4	20.0	18.2	16.7	18.2
	100.0	100.0	100.0	100.0	100.0

*Estimated

In 1940, operating salaries and wages took about 19½ cents of the revenue dollar and this compares with 20.4 cents in 1948 and 20.3 cents in 1949. In other words, the growth of the industry has been so great that despite a substantial increase in wage rates, the proportion of salaries and wages paid is not any more significant from the gross revenue standpoint than it was 10 years ago.

Fuel, on the other hand, which consumed only 7.3 cents of the revenue dollar in 1940 took 19.3 cents of the revenue dollar in 1948. The increase in coal prices as well as railroad freight rates for hauling the coal to the power plant bunkers has been very substantial and this accounts for this divergence. On the other hand, it is significant to note that fuel in 1949 took only 16½ cents of the revenue dollar. While the overall power output was up about 3½% in 1949 and coal prices averaged slightly higher, the industry's fuel bill dropped 9% and resulted in a reduction of about $68 million for the year as compared with 1948. The average amount of coal burned per kilowatt-hour generated in 1949 was some 7½% less than in 1948. This reflects the more efficient and economical new generating capacity added in 1949 and further proportionate efficiencies may be expected from here on because of the additional efficient generating capacity to be installed.

Depreciation charges during the past several years have varied between 9.1% and 9.9% of gross operating revenues for the industry as a whole as compared with 11% in 1940.

Interest and other fixed charges consumed about 13.6 cents of the revenue dollar in 1940 but in 1949 this dropped to about 6.4 cents. While the actual fixed charges in 1949 were higher than those in former years, the fact remains that this now represents a small proportion of the total cost of doing business. This, of course, reflects the lower interest rates at which the utility companies have been able to refund their bonds and to sell their new bonds, as compared with former times. In other words, the bondholders have been substantial contributors to the net available for preferreds and commons by way of the much lower yieds which they now obtain on the mortgage bond and debenture holdings.

As a percentage of gross revenue, total taxes went up only slightly from 17.6 cents of the revenue dollar in 1940 to 18.9 cents in 1949.

The amounts available for dividends and surplus were equivalent to 22.4% of gross operating revenue in 1940, while in 1949 they represented 18.2 cents of the revenue dollar. This still provides a good cushion for the protection of the coverages on the senior securities.

It will be recalled that the year 1949 was affected to some extent by a recession in industrial activity. As a result industrial kilowatt-hour sales in 1949, for the electric industry as a whole, showed a decline of 3%. On the other hand, the more profitable residential and commercial class of service showed a good increase, enabling the industry to show an overall increase of 3½% in kilowatt-hour output. The industry was also able to show an overall revenue increase of about 6.3% in 1949 but this showed a leveling-off effect as compared with the 11% rise shown in 1947 and 1948.

The growth in revenues, together with the aforementioned savings in fuel and other factors, resulted in a 15% increase in the gross income available for fixed charges and dividends. Dollar-wise, the increase in the gross corporate income amounted to $136 million. Fixed charges on the other hand showed an increase of only $28 million in 1949 as compared with 1948, so that the net improvement was $108 million as far as net income is concerned. In other words, net income after fixed charges showed an increase of about 16%, thereby improving the cushion behind the fixed charge on the long-term debt.

Interest charges on long-term debt in 1949 were covered 5.65 times before income taxes and 4.2 times after income taxes. The latter ratio compares with a similar coverage of 4.64 times in 1946, and this indicates some dilution in the coverages. This decline, however, in the coverage for fixed charges is not significant, particularly in view of the large construction budgets which the utility industry had to finance since 1946.

The Earnings Outlook

The earnings outlook for 1950, in our opinion, is favorable. While the recent coal strike settlement, together with further moderate wage increases which are occurring, will increase the industry's operating expenses, the continued growth in operating revenues should be able to offset such expense increases. Another factor, of course, will be the lower fuel consumption per kilowatt-hour of the more efficient generating capacity now coming on the line. Incidentally, a number of the new generating units placed in operation in 1949, and those now under construction, have a fuel consumption equivalent to less than a pound of coal per kilowatt-hour as compared with 1.3 pounds of coal per kilowatt-hour of output experienced by the industry as a whole in 1948. Further improvements in the thermal efficiency of power plants will undoubtedly occur as time goes on, although the margin from here on will be relatively small.

The electric utility industry is still a growth industry, in our judgment, although perhaps the growth from here on will be more gradual in comparison with the postwar rate. The continued prosperity of the industry is virtually assured for a good many years to come. A dynamic factor in this connection is the favorable trend in population growth. Since 1940 the population of the country as a whole showed an increase of about 13½% but what is more important from the utility's standpoint is the fact that the increase in the number of families since 1940 amounted to close to 20%. This is more significant because, in the final analysis, it is the number of families which is translated into residential customers for the utilities. The birth rate during recent years showed a substantial increase, and this will ultimately be translated in a continued increase in the number of customers in the future.

New Electrical Appliances

The development of new appliances is also a favorable factor as far as the future outlook for the utility industry is concerned. Television receivers, for example, which consume a net average of about 180 to 200 kilowatt-hours per year, are becoming a more important factor. For instance, there are now more than 500,000 television sets in operation in the New York area. The annual consumption of these sets is equivalent to that of 100,000 average residential consumers. In other words, in the case of Consolidated Edison of New York, the television sets now in service are doing the same job as if the company had connected an additional 100,000 new residential customers to its lines. Television receivers in use in the Chicago area are now close to 400,000 and in January alone showed an increase of more than 32,000. The production of television sets for the country as a whole has been running at more than 335,000 per month thus far in 1950.

The heat pump which can be used for heating in the winter months and for cooling in the summer, and which for an average size house can consume from 13,000 to 16,000 kilowatt-hours per installation per year, is another good prospect for future growth. There are many experimental installations of heat pumps throughout the country and this device affords good prospects for the future. For example, if only 5% of the homes in the United States were ultimately to use heat pumps, this would increase the over-all residential revenues by at least 25%.

The national average for the domestic usage is now only about

Securities Salesman's Corner

By JOHN DUTTON

Your office can either help or hinder you in your constant quest for more business and bigger and better accounts. Some years ago, right after the great market break of 1929, I was associated with a medium-sized retail organization as a salesman. I can remember that we occupied ample, yet modest, office space in one of the upper floors of a downtown office building. Due to the exigencies of the times, our firm was absorbed by a large New York firm that was a member of the New York Stock Exchange.

Immediately thereafter our whole organization was moved kit and kaboodle into the entire downstairs, street level, office of what had formerly been the main banking room of one of the largest banks in town. You could have set up two bowling alleys and a skating rink in the place. We had marble floors, glass-topped desks, and we even retained the great bronze-footed stands which the bank had used for bank checks and deposit slips—in these we now placed our offering circulars. I had a big desk, with my name on it. We were all set, or so it seemed.

If you ever saw an office that was cold, this was it. Our little organization of about 15 people looked like the proverbial little lost sheep roaming around in this great office. We even had a fancy quotation board and overstuffed seats at one end of the room—we didn't fill them, either. The overhead must have been tremendous and the net results in increased business certainly did not materialize.

Here was an extreme case, it is true, of an office that was completely unsuited to the type of business we were conducting. But no matter where your office is located there are certain things which you can do that will help you to increase your sales and build business. An office should be warm. It need not be richly appointed but it should be in simple good taste. There should be a financial library where people can sit down and read in comfortable, pleasant, surroundings with a certain amount of privacy. You should have enough private room space for consultation with clients. **Your office should build prestige, confidence, and enhance the good opinion which those who call to see you should have in their minds when they think of you.**

If you have some good charts, put them on your walls in your library. If you have any honorary or documentary attestations of your past work, or community endeavors, etc., place them where they can be seen. That is where a doctor or dentist shows his public that he is qualified—he hangs his diplomas, society affiliations, etc., in his business office.

"Next to your health, the most important thing in your life is your financial welfare." Say this to any one of your clients and see if they do not agree. Say it, and mean it. Say it in your office by the way you plan your surroundings and the tools with which you must work to help them accomplish their objective of sound investment. Remember, in the securities business the only things you have to sell are reputation and experience. Your office can help you build both in the minds of your clients.

1,655 kilowatt-hours per customer, and has plenty of room to grow. A number of companies in the Pacific Northwest, for example, already enjoy annual residential consumptions of close to 5,000 kilowatt-hours per customer, and is still rising.

We find that one question in the minds of the investors is, "What would happen to the electric utility industry earnings in the event of an industrial recession?" A part of the answer has already been given in 1949, when, as previously noted, in spite of a 3% decline in industrial power sales, the gross corporate income of the industry as a whole showed an increase of 15%. Even assuming some decline in industrial activity, in our judgment, the electric industry would benefit rather than be injured earningswise, provided, of couse, the business recession did not attain 1933 depression levels. Improved efficiencies both from labor and from new generating equipment recently placed into service and now under construction, will go far toward offsetting the declines in industrial power sales. Both domestic and commercial sales probably would continue to advance in line with their long-term trend and these customer classifications provide a good margin of profit since they are served at higher rates than the lower rate industrial business. In 1949, for example, the average realization per kilowatt-hour sold amounted to 3c from domestic sales and 2.84c from commercial sales as compared with only 1.17c per kilowatt-hour realized from the industrial class of service. While the industrial classification accounted for close to 50% of the total kilowatt-hour sales in 1949, it contributed only a little more than 30% of the total operating revenue. Assuming a drop in industrial kilowatt-hour sales, in the first place, this will eliminate the necessity on the part of the utilities to use their inefficient power generating units and, in the second place, the kilowatt-hour drop in sales will come at the lower steps of the industrial rate schedule which yield a very small margin of profit. These operating economies together with an increased margin of profit on the growing domestic and commercial business would probably more than compensate for the loss of a portion of the low-profit industrial business. In addition, the industrial rate schedules provide for minimum monthly charges which the industrial customers have to pay in any event.

Incidentally, the so-called country type of companies, as contrasted with the metropolitan type, now appear to be more attractive as investment media, other factors being equal. The country companies seem to be enjoying greater growth, industrial load is less pronounced, and increases in wage rates are not likely to be as high as those that might be faced by the metropolitan type of companies from here on. As a whole, the electric industry has good pension plans already in effect and many are already fully funded.

In conclusion, the utility industry has gone a long way in the last 20 years, and we do not expect again to see either the excesses which were indulged in during the era of "beautiful nonsense" in the 1920s or the drastic discounts of the ensuing depression. Sympathetic Commission regulation and enlightened management policies have placed the utility industry on a high investment level and the electric utilities in particular still possess considerable resiliency to absorb further increases in the cost of doing business, if necessary. The electric utility industry also has an excellent opportunity for future growth and the development of new appliances, as well as additional industrial mechanization to offset rising labor costs, are important factors in that direction. The industry should have no difficulty in financing its construction requirements from here on and in doing so it would still be able to keep its capital structure well in balance. The earnings of the electric industry will show continued progress this year, although perhaps not as great percentagewise as was true in 1949. Although predictions are hazardous, it would seem to us that, even in a recession of fairly sizable proportions, the earnings protection for the better grade public utility bonds is not likely to be cut down to a point that will affect the credit standing of industry. There will, of course, be variations from company to company and each individual situation should be examined carefully in the light of its own peculiar condition.

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The State of Trade and Industry

quarter. The freight car builders are finding it difficult to get steel for the recent influx of orders handed them by the railroads. Although they have been able to step up production somewhat, they will really have to go some to equal their estimate of 40,000 to 50,000 cars this year.

Other manufacturers are also boosting their output. Auto makers and appliance people have their plants humming record tunes. Some appliance and farm implements are being turned out faster than they are being sold. This may become significant later this year. The auto market is holding up surprisingly well. This could be Detroit's best year, the magazine adds.

But there are a few inequalities which could develop into trouble spots within a few months. Some of the largest and most aggressive steel users are procuring their supplies of steel faster than they are using them. Obviously they are trying to restore their inventories to the desired level. When that has been accomplished they will need less tonnage—if their sales drop they will need much less.

There is enough pressure on the steel market to make it go haywire if it were not for the steadying influence of costs. Some consumers are paying $30 to $40 a ton above the market price (premium prices) for tonnage from marginal mills. Others are paying as much as $50 to $60 a ton extra for conversion steel. But their costs are such that they will not pay the fees necessary to support a thriving gray market. In a market so tight, curbstone brokers are conspicuous by their absense, "The Iron Age" observes.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity for the entire industry will be 100.3% of capacity for the week beginning April 24, 1950. This is 0.3 of a point over last week's rate of 100%.

The scheduled rate of output this week represents the greatest production in the history of the industry, eclipsing last week's output of 1,906,300 tons and comparing with 1,880,400 tons during the week of March 14, 1949, when the industry's capacity was lower and operations were at 102% of that capacity.

This week's operating rate is equivalent to 1,912,000 tons of steel ingots and castings for the entire industry compared to 1,906,300 tons one week ago. A month ago the rate was 96.7% and production amounted to 1,843,400 tons; a year ago it stood at 97.5% and 1,797,400 tons.

ELECTRIC OUTPUT SEASONALLY LOWER

The amount of electrical energy distributed by the electric light and power industry for the week ended April 22 was estimated at 5,845,636,000 kwh., according to the Edison Electric Institute.

It was 17,611,000 kwh. lower than the figure reported for the previous week, 520,123,000 kwh., or 9.8%, above the total output for the week ended April 23, 1949, and 818,356,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS SLIGHTLY IMPROVED FOR WEEK

Loadings of revenue freight for the week ended April 15, 1950, totaled 707,272 cars, according to the Association of American Railroads. This was an increase of 7,143 cars, or 1% above the preceding week.

The week's total also represented a decrease of 58,671 cars, or 7.7% below the corresponding week in 1940 and a decrease of 77,339 cars, or 9.9% below the comparable period in 1948.

AUTO OUTPUT IMPROVED BY INCREASE IN FORD OPERATIONS

According to "Ward's Automotive Reports" for the past week, motor vehicle production in the United States and Canada advanced to an estimated 149,855 units compared with the previous week's total of 147,240 (revised) units by an increase in production at the Ford plant.

The total output for the current week was made up of 116,765 cars and 25,929 trucks built in the United States and a total of 5,441 cars and 1,720 trucks built in Canada.

The week's total compares with 141,532 units produced in the like 1949 week.

BUSINESS FAILURES CONTINUE MODERATE DECLINE OF PREVIOUS WEEK

Commercial and industrial failures decreased to 188 in the week ended April 20, from 201 in the preceding week, Dun & Bradstreet, Inc., notes. Casualties were less numerous than a year ago when 198 occurred but remained above the total of 100 in the comparable week of 1948. In comparison with the prewar level, failures continued to be relatively low; they were 40% below the 316 in the similar 1939 week.

Manufacturing, wholesaling and service failures decreased; in wholesale trade casualties were at the lowest level since September, 1949, and in commercial service since December, 1948. Contrary to this decline, retail and construction failures increased slightly. These two lines had more casualties than a year ago whereas the other industry and trade groups reported decreases of one-third or more.

Moderate decreases in mortality during the week were registered in the East North Central, South Atlantic and in the New England States. On the other hand, increases occurred in both the Middle Atlantic and Pacific States. These areas, along with the East South Central and Mountain States, had more failures than last year, while a mild decline from the 1949 level prevailed in the other five major regions.

WHOLESALE FOOD PRICE INDEX OFF TO LOW POINT OF YEAR

The wholesale food price index, compiled by Dun & Bradstreet, Inc., fell 2 cents last week to stand at $5.73 on April 18 to equal the low point of the year recorded on Jan. 3, 1950. The current figure represents a rise of 0.9% above the $5.68 of the corresponding date a year ago.

WHOLESALE COMMODITY PRICE INDEX EASES ON PROFIT-TAKING AND FORECASTS OF POSSIBLE RAINS IN DRY AREAS

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., registered a slight drop the past week, following the mildly upward movement of the previous few weeks. The index closed at 252.23 on April 18, comparing with 252.43 a week ago, and with 249.40 on the comparable date of last year.

Weather conditions played an important role in grain markets last week.

Wheat prices advanced early in the period following publication of the April 1 report of the Department of Agriculture showing a drop of 121,000,000 bushels in the prospective Winter wheat crop since the Dec. 1 estimate, as the result of dry weather and insect damage. Gains were not maintained, however, and closing prices were slightly under a week ago largely due to profit-taking and forecasts of possible wet weather in the dry areas of the belt. Activity in corn was only fair with prices showing little change for the week. Demand for corn from both the local and export trade remained light. Trading in oats was more active; prices rose to new highs for the season early in the week but weakened later on reports of better seeding weather.

Domestic flour prices were somewhat softer as forward bookings continued on a very slow scale. The export flour market remained very quiet.

Most classes of livestock trended lower under increased market receipts. Steers finished moderately higher but hogs were off about 50 cents a hundredweight and lambs about $1.25 from a week ago.

Cotton prices worked mildly lower during the early part of the week but turned upward in the latter half to finish with a slight net gain for the week. Strengthening influences included price-fixing against export sales and reports of delayed planting operations in Texas and Oklahoma due to continued dry weather. Activity in the export market increased with several countries reported placing a fairly good volume of orders for both prompt and forward shipment. Domestic mill buying was only fair with some improvement noted in the south central area.

Sales reported in the ten spot markets during the short business week totaled 89,500 bales, comparing with 104,900 bales the previous week, and 115,500 in the corresponding week a year ago.

RETAIL TRADE EDGED LOWER WHILE WHOLESALE DEMAND HELD STEADY IN LATEST WEEK

Continuing last week's post-Easter decline in consumer spending, retail dollar volume dipped slightly during the period ended on Wednesday of last week, being slightly below the level for the comparable week a year ago, according to Dun & Bradstreet, Inc., in its latest review of trade. A later Easter season in 1949 was largely responsible for a higher sales level in comparison with last week.

The country-wide demand for apparel decreased moderately in the week. There was slight consumer interest in men's and women's suits and in quality dresses, while informal and washable dresses were widely purchased; the generally reduced margin of mark-up on these items did not appreciably affect dollar volume.

Slightly more fresh produce was sold last week than in the previous week; the demand for canned goods was generally decreased. The dollar volume of frozen foods was about steady. Fresh meat was in slightly diminished demand, although the sale of pork rose somewhat. Slightly more milk and eggs were bought the past week.

Retail purchasing of durable goods increased slightly with demand for refrigerators and some other large appliances seasonally higher. The interest in bedroom furniture increased as specialized promotions got under way. Housewares were almost unchanged in popularity, while television sales continued to rise.

Total retail dollar volume for the period ended on Wednesday of last week was estimated to be from unchanged to 4% below the level of a year ago. Regional estimates varied from the levels of a year ago by these percentages:

New England +2 to —2; East —1 to —5; South, Midwest and Pacific Coast +1 to —3 and Northwest and Southwest 0 to —4.

There was almost no perceptible change in the quantity of wholesale ordering during the week; total unit volume was virtually equal to that of the similar 1949 week, although dollar volume was slightly below the level of a year ago. The number of buyers arriving at various wholesale centers dipped slightly from the previous week's figure.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended April 15, 1950, declined 19% from the like period of last year. No change was recorded in the previous week from that of a year ago. For the four weeks ended April 15, 1950, sales declined 5% from the corresponding period a year ago, and for the year to date show a drop of 4%.

Retail trade here in New York the past week was lower with department store sales estimated at close to 3% below the like period in 1949, when retail buying was very favorable.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to April 15, 1950, fell 20% from the like period last year. In the preceding week a decline of 3% (revised) was also registered from the similar week of 1949. For the four weeks ended April 15, 1950, a decrease of 8% was reported from the like week of last year. For the year to date volume decreased by 6%.

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Road Blocks on Our Economic Highway

panies made a poorer showing in 1949 than 1949.

Employment is still at a very high level but jobs are no longer increasing rapidly enough to absorb the annual increase of the labor force.

I have pointed out that millions of people are now deeply in debt. As a matter of fact, the debt could become much heavier without serious results. But we should not ignore two factors. A very considerable part of the sales of consumer-durables in the postwar years has been the result of going into debt. And somewhere ahead the debt curve will begin to decline.

Growing farm surpluses emphasize our tremendous capacity to produce. Our government insists on establishing farm prices that stimulate production beyond the point where the market will pay for the output. And food is dumped in foreign countries at a fraction of the price the American housewife is compelled to pay.

Just as surpluses are growing in farm products, backlogs are disappearing in most of our industries.

The great automobile industry, for example, is well over the hump. Its backlogs are vanishing, even though it is currently running at an amazingly high level. Although the construction industry, with its backlogs, is an outstanding exception, it is the only large sector of our economy in this category.

Artificially High Prices

Artificially high prices which are causing markets to shrink are basically the result of governmental economic intervention and, in some industries, are encouraged by short-sighted labor leadership. They forget that people cannot be compelled to buy and will not buy at prices beyond their pocketbooks. The result is idle goods and idle labor.

How about the continuing squeeze on many classes of American consumers? A great number of families have benefited by increases in wages and income far in excess of the rise in living costs. But many families have not so benefited. And we must always keep in mind that most industries must sell their output to the entire community, not simply to those who have had the wage boosts.

I mentioned the shrinking of our foreign markets. Part of this is due to the rise of Communism which keeps us from expanding commercially in great areas of the world. But most of the shrinking has been due to the amazing increase in our own self-sufficiency. Because we import less, foreign countries cannot buy more of our goods for lack of dollars.

Conditions have changed considerably since the days of the New England sea captains who sailed with their clippers loaded with goods that were wanted abroad and returned home with goods that the home folks lacked and therefore eagerly bought. In those days our country lacked a lot of foreign goods that we have long since learned to make ourselves or substituted with home produced goods.

Yet we can take a lesson from these enterprising sea captains and explore every possible method of increasing our imports and exports.

In this discussion we have not the time to explore in detail our shrinking export trade. But this, combined with the other factors I have mentioned, has a depressing effect on the economy.

Chances for a Depression

Will the forces that make for expansion and a higher level of business activity be strong enough to hold in check the forces that make for the emergence of a depression?

Let me say at the outset that a bit of contraction and deflation is not necessarily harmful. Like a bitter medicine, it may be most unpleasant to take at the time but it can be most helpful in the long run.

When inventories reach a level so high that consumer purchases no longer warrant it, the level must be reduced. That was done in the first half of 1949. As a consequence, recovery developed in the second half of 1949 and the inventory situation is now on a sounder basis. Labor now probably feels that there is much less likelihood for lay-offs due to excessive inventories than there was a year ago. The reduction of inventories, therefore, was in the long run beneficial to all concerned.

This should be a lesson to us dealing with economic problems. It is better to take a dose of medicine than risk a diseased condition. Nothing is gained by treating an over-extended stomach with shots to restimulate the appetite.

Unfortunately, our government has not learned this lesson. Its cure for inflation is deficit financing that lets loose new inflationary forces that bring out still higher prices. Its cure for potatoes that are too high-priced for the market is to clear the market by destroying the potatoes. Its cure for eggs that are too high-priced for the American family is to powder the eggs and bury them in limestone caverns. Its cure for raisins that cannot be sold at government-supported prices is to feed the raisins to hogs.

I have often wondered if the government ever considered what lower food prices might do. I am of the humble opinion that lower prices could greatly increase consumption, really fill the housewife's basket with food, leave her more money to spend for other goods and services, and sharply increase the farmer's sales.

Nor is this creation of artificially high prices confined to food. Take, for example, the construction industry. The government's cure for high building costs is to over-stimulate the industry and thus bring about still higher costs. Ever since the war the government has given the construction industry one unnecessary shot in the arm after another. And why? To increase a fevered condition that would never have developed without governmental intervention. It seems to me that it is extremely shortsighted to try to do all of our building at the peak of good times. It would seem logical to leave some of this construction for a time when business is not so good, when building labor needs employment, and when it may be possible to build at lower prices.

Dangers of Reappearance of Large Scale Unemployment

In my opinion, the most disturbing development in our economy today is the reappearance of large-scale unemployment. The young people who enter the labor market are finding it increasingly difficult to get jobs. And government is basically responsible for this situation.

Since the end of the war, the government has maintained inflation by spending money where there has already been too much money. Prices cannot come down when the government deliberately keeps them up. And so the brakes are tightening on consumption.

Unless there is an increase in consumer buying, no jobs are created to employ new workers in the consumer-goods industries.

In the capital-goods field, employers and investors are drained of the funds needed to further expand, modernize and equip industry because of the government's policy of excessive taxation. And unless there is an expansion of industry no jobs are created to employ new workers in the capital-goods industries.

The government's two-fold policy of keeping prices artificially high and draining industry and investors of venture capital results in chronic unemployment.

The Keynesian doctors in Washington have what they believe to be the correct prescription. It is more of the same. They will rob Peter a little more to pay Paul. They will go in for more deficit financing. They will try to create new jobs, as they make it more and more difficult for business to do so.

Pump Priming Becoming Ineffective

Obviously, the government can embark on vast public works projects to cushion unemployment. And the government can prime the pump by pushing the nation further into debt.

This could result in an all-out test of the Keynesian doctrine. It is conceivable that these economic planners, in their zeal to prevent widespread unemployment, might pull out all of the stops in an effort to distract the people from the ineptness of the government's policy and create an atmosphere of false prosperity.

I have pointed out that repeated doses of this type of pump priming are not only becoming increasingly ineffective but actually aggravate an already unsound condition. Perhaps our economy is now at the point where it cannot respond to further artificial stimulation.

If this should prove to be the case, there is the danger that some Keynesian zealot, in desperation to make jobs would tempt us to use the present Cold War as an excuse to create full employment.

You and I know that this would be playing with dynamite.

The road from rising unemployment, caused by faulty economic policies, to actions that get beyond the control of pygmies in the seat of government, is a historic one that many a nation has traveled. We must see to it that this never happens in America.

The basic responsibility for creating jobs should be left to private enterprise. That makes for peace, plenty and prosperity based on freedom. Government's function should be to clear the road for private business, not block it at so many turns. The government should discourage policies which allow taxes to fall too heavily on venture capital and which dry up one of the greatest sources of employment. It should discourage monopolistic practices that restrain free and fair competition. It should abandon policies that allow strong pressure groups to force wages or prices too high for full employment.

How Private Enterprise Can Be Helped

Government can best encourage enterprise and provide increased employment by becoming a friendly umpire acting for all the public and for the common good, rather than for some partisan or pressure group.

It is not my intent to appear as an alarmist or a pessimist. However, I do believe that we businessmen should face the facts as they are, not as we would prefer them to be.

It is my personal conviction that we must have an adjustment to get our economy back on the track. But even during such a period, the level of business activity should still be much higher than it was before the war. Finally it is my firm belief that after the adjustment we are destined to enter a period of business activity greater than we have ever seen.

In the coming period of greater business activity, sales and advertising executives will face a heavy responsibility. With an increasingly higher level of business that should accompany the future economic expansion of our country, it is assumed that huge consumer purchasing power will be available. As we know, production and purchasing power are dependent on sales. That is your job, gentlemen. It is up to you to increase consumer demand if our economy is to move along at a high level. And I am sure that you will be successful if you are given an economic and political climate that will encourage your initiative and your creative abilities.

I have always had the greatest faith and confidence in the American people. In spite of the threat of Russia from without and our Keynesian economic quacks from within, I am convinced that our democratic ways and our system of freedom based on the individual and on human dignity will prevail. There have been difficult times before and we have emerged from them, scarred perhaps, but the better for the experience. If the forces of depression overcome those of expansion as our economy readjusts itself, I am confident that it will be only temporary, that we will recover and will be ready for an era of greater expansion that will bring to more of our people more of the comforts and happiness of life.

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The Profit and Loss Statement

natural gas, electricity, and other products. This breakdown may be of considerable importance to the investor because it gives a clearer picture of the company's operations. It is conceivable that a company may be producing both a product whose outlook is poor and one with good growth prospects, and without a breakdown it would not be possible to determine the importance of each product to the company.

Depreciation, Depletion and Amortization

In the Cost of Sales section the item that requires additional elaboration is the Provision for Depreciation, Depletion and Amortization. As we briefly mentioned two weeks ago, this figure represents the using up and wearing out of the company's plants, machinery, and natural resources. It is a valid expense which must be charged against income since such assets must be replaced if the company is to continue to operate but, as we saw, it is a bookkeeping transaction and no actual payment of money is involved, as in the case of wages paid or the purchase of supplies. This is important because a company may show that it is losing money when at the same time it is actually increasing its cash balance. Even though a company has no earnings it may, therefore, be able to continue to pay out interest on its bonds and even to retire its bonds and other securities with the cash accumulated as a result of depreciation, depletion and amortization. Although the Virginia Iron Coal and Coke Co., for example, showed no earnings for many years it continued to pay interest on its mortgage bonds and to purchase in the open market bonds and preferred stock for retirement. The bonds of the company actually proved to be a sound investment although most statistical services rated them poorly because of the lack of earnings.

From the opposite point of view, the provision for depreciation, depletion and amortization may also be highly significant to the investor because if there has been insufficient allowance for the wear and tear of assets, earnings will in fact be overstated and a security holder may find to his dismay that the company has been living on its capital.

The Non-Operating Section

Turning now to the Non-Operating Section, we find listed income and expenses not directly related to the company's normal operating activities. Such income would include dividends and interest on investments held by the company, rents and royalties on processes or patents owned, profit on the sale of capital assets and similar items. Non-operating expenses, on the other hand, would include interest on the company's own funded debt and notes, amortization of such debt had it been issued at a discount, loss on the sale of capital assets, etc. It has always seemed somewhat inconsistent to me to consider interest on debt a non-operating expense since it is reasonable to assume that the company would not have borrowed the funds unless they were needed for normal operations. However, this is the usual practice, so we had better accept it. Generally speaking, the amount of non-operating income and expenses will be relatively unimportant as compared with the company's operating figures. However, this may not always be true. During the depression, for example, one of the country's principal railroads operated at a substantial loss but its income from oil royalties and other holdings were sufficiently large to enable it to show a profit.

Profit or Loss

The next principal section of the Profit and Loss Statement is the statement of profit or loss. The total of operating and non-operating income less the total of operating and non-operating expenses gives us our first item in this section—the **Profit or Loss Before Federal and State Income Taxes.** Income taxes are not considered expenses since they are paid only if there has been a profit. The provision for such taxes (but not normal real estate and excise taxes which are considered non-operating expenses) is, therefore, shown next in this final section of the Profit and Loss Statement. Profit or loss before taxes less taxes normally gives us the final figure in the Profit and Loss Statement, which is the **Net Income** or **Net Loss.** Assuming there has been a profit, this figure of Net Income is the amount available for distribution to the company's shareholders—preferred and common.

Not all Profit and Loss Statement will be quite as simple as this discussion might indicate. Particularly, the Income Statements of railroads and public utilities are considerably more complex. Occasionally other items will be found, two of which might be mentioned because of their more frequent appearance of late. These are the Provision for Contingencies and the Provision for Sinking Funds. You will recall from our discussion of Reserves two weeks ago that a company may feel that for one reason or another its income during the

year has been overstated or that certain contingencies in the future must be taken into account. It may, therefore, adjust its income accordingly. Or, as we have also seen earlier, the company's bonds or preferred shares may require it to set aside a portion of its income for a sinking fund in connection with these securities. In either case, these are adjustments which do not really reduce income but simply provide for a distribution of such income other than to the company's stockholders, where it would normally go either in the form of dividends or in an increase in stockholders' equity. Provision for contingencies and sinking funds, therefore, are generally shown after the deduction of estimated income taxes. Where such an adjustment is made, the item following the provision for income taxes is generally called **Income Before Provision for Contingencies** or **Before Sinking Fund.** Then the following item will be **Provision for Contingecies,** etc., and **Net Income** will be shown below.

Some of this may become a little clearer after we have examined several actual Profit and Loss Statements. Since we have already reviewed the Balance Sheet of Emerson Radio and Phonograph Corp. we might start with this company's Profit and Loss Statement which the company calls "Statement of Consolidated Income."

Net Sales

The first figure shown is that of Net Sales, that is, income from sales after deducting returns, allowances and discounts. The next item shown is Cost of Sales, which in the case of this company does not include Selling, General and Administrative Expenses. Subtracting Cost of Sales from Net Sales we next find the Gross Profit From Sales. The company then shows separately Selling, General and Administrative Expenses which deducted from Gross Profit From Sales gives us the Profits From Operations or what we have previously called Operating Profit. This completes the so-called Operating Section of the Profit and Loss Statement.

In the case of Emerson, the Non-Operating Section includes a few small items which are listed under the general heading of "Other Income" and which include Royalties, Interest and Miscellaneous. There are no Non-Operating Expenses or what the company might have called "Other Expenses."

The total of Profit From Operations and Other Income provides the first item in the Profit and Loss Section of the Statement which the company calls Income Before Provision for Federal Taxes on Income. Provision for such taxes is the next item, and then we come to the final figure of Net Income or the amount available for the company's stockholders. As we have pointed out earlier, this is not to say that the stockholders will receive all or any of such income as dividends, which is a matter entirely in the discretion of the company's board of directors.

The Emerson Profit and Loss Statement is extremely simple. We might now look at a slightly more complex one—that of the Curtiss-Wright Corp. This is a "Consolidated Statements of Income," which means that it includes the financial figures for the company as well as its subsidiaries. While this is not a course in accounting, I think it is well to point out that where a company owns 50% or more of another company the latter company is usually considered a "subsidiary" of the former which is then referred to as the parent company. In addition to the parent company's own balance sheet and profit and loss statements, it will usually issue combined or "consolidated" financial statements which include the financial figures of its subsidiaries adjusted for intercorporate financial transactions. This raises certain problems which we might briefly touch on. In the Consolidated Balance Sheet the public's interest in the subsidiary—assuming that the latter is not a wholly owned subsidiary so that there is no public interest—must be adjusted so that the parent company's net worth is not overstated. For example, assuming Company A with certain assets and liabilities of its own also owns 70% of Company B. In the Consolidated Balance Sheet, Company B's assets and liabilities (other than its capital account) will be combined with those of Company A. However, Company A owns only 70% of B's assets while the public (described as the "minority interest") owns the remainder. The public or minority interest in the capital stock and surplus (that is the net worth) of the subsidiary is therefore shown on the Consolidated Balance Sheet as a liability of the parent company.

Minority Interest

Allowance must also be made for the minority interest on the combined or Consolidated Profit and Loss Statement. Although the subsidiary's income and expenses are combined with those of the parent, only a portion of the net income or loss in effect belongs to the parent company, so that an adjustment here must also be made. Such an adjustment is usually shown after the item Income After Federal and State Income Taxes. In the example just cited, assuming Company B had a net income after taxes of $1,000,000, this figure will be incorporated in the consolidated income statement, but since the public or minority interest in this income is 30%, a deduction of some $300,000 will be made before the final figure of Consolidated Net Income of Company A is arrived at.

Getting back to the Consolidated Statements of Income of the Curtiss-Wright Corp., the first item is Sales, which is probably Net Sales. From this figure there is deducted Cost and Expenses, including Cost of Sales, Administrative, selling and service expenses, and Engineering, research and developmental expenses. Although the resultant figure is not identified, it is in fact the Net Operating Profit. In the Non-Operating Section we find "Other Income" including Interest, Profit on Sales of Securities, Rentals, etc., and "Other Deductions" including Provision for Doubtful Accounts, Loss on Disposal of Fixed Assets and Miscellaneous. The total of Net Operating Profit and Other Income less Other Deductions gives us Income Before Provision for Federal and State Income Taxes, although again the company does not specifically use this heading. After the deduction for income taxes, we find an allowance for the minority interest in the company's subsidiaries, following which is the Net Income.

The Tax Item

Before concluding, we should probably point out that in the Profit and Loss Statements of railroads and public utilities income taxes are shown as an operating expense and before fixed charges. Actually, as in the case of industrial companies, the amount of income tax, if any, depends on how much profit there has been, and the tax is arrived at in a similar manner, but it is then shown as an expense. In determining the number of times fixed charges have been covered—an important analytical ratio, as we shall see next week—the provision for income taxes must be added back to Gross Income, however, since as we have seen fixed charges are an expense which is deducted before taxes.

On May 4 we shall attend the annual meeting of the Brooklyn Union Gas Co. Please keep this date free.

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Savings Banks and Government Bond Market Outlook

their holdings today are less than $1 billion.

Now the possibility that beginning in 1952 what you now own will be eagerly desired by Commercial Banks has stimulated all sorts of suggestions as to the desirability of rearranging your holdings so that you will be in a position to meet that expected demand at prices which will show you a nice profit over and above the full coupon rate for the period held and, for a time, did result in more of a price rise for the early eligible issues than for those not eligible until later. But not as much more as some people had anticipated. I sometimes wonder what percentage of the sales and purchases which have been made would have been made had there been no telephones ringing every few minutes. Anyhow I got the idea that lots of you had concentrated pretty heavily in the 2¼s, thinking that these bonds, which in 1952 will be callable in seven years, would be the maiden's choice of Commercial Banks in that year and that a good 2½% might have been sold to take the price gamble involved.

Actually, it would seem that you have done nothing of the sort. What you have done shows up by comparing your holdings of the ineligible "tap" issues on June 30, 1946, and at the end of last year. To get a true comparison the list in the middle of 1946 has to include the 2¼s of 59/56 which were then not eligible for Commercial Banks but became so three months later. At that time you held just under $8,396 million, of the "tap" issues. Last December the total of the same issues was $9,038 million, an increase of $642 million. When the 2¼s 59/56 became eligible and demand from Commercial Banks raised their value you naturally let them have them so that of the $1,090 million originally held only $106 million are now left in your portfolios. I don't quite see why any of them are left but that is what the record shows. Anyhow there were sales of $984 million 2¾s 59/56 and additions to your holdings of $642 million, a total of $1,626 million which went into the other issues. What did you do? Well, you bought $184 million of the 2¼s and $176 million of the 2½s eligible in 1952, i.e., $360 million of the earliest callable bonds. Then you added $1,148 million of the four 2½% issues which Commercial Banks can buy in 1953 and 1954 and only $118 million of the two longest and always cheapest issues, actually selling $229 million of the very longest and buying $347 million of the six months shorter bonds.

Apparently the composite judgment of the Savings Bank fraternity decided to play both ends against the middle by taking on the 2½% issues which were not quite so high in price as the earliest eligible bonds but would become eligible shortly thereafter, thus getting a somewhat better income return and yet not losing the speculative possibility of price appreciation when as and if the Commercial Banks knocked on the door for a hand out. For myself I am far from sure that a somewhat greater concentration in the two longest issues would not have been advisable. To speculate on market conditions in 1952 is a first class guessing game. It does look as though the Treasury would not offer the Commercial Banks any new issue with over a 10 year maturity, if that, in the interim. The Commercial Banks will surely have ample maturities in 1952 to buy your bonds and the same in 1953 and 1954 but what will the Treasury do for money to pay off the Commercial Bank maturities if the Commercial Banks want cash? Perhaps that will be the year for a new issue of long term 2½s for non-bank consumption, who knows?

Possibility of New Medium Term Treasury Issues

Another possibility is that in the next two years the Treasury will acquiesce in the Commercial Bank demand for somewhat better yielding new issues in the 5-10-year maturity range with coupons of 1⅝% or 1¾% and get them in the habit of expecting that rate in that maturity area. Such issues would be competitive with your 2¼s and 2½s but if those were the rates, you could expect somewhat better prices than today's markets, just how much better is hard to figure out. But then again, if those were the prevailing rates it could also be expected that the longest term issues would hold or even improve their present prices. Last fall I tried to figure out what could be expected on the assumption that the interest curve would change very little and came to the conclusion at that time (the market has gone down since) that the possible appreciation in value was probably a little greater for the 2½s eligible in 1953 and 1954, but not more than ½ or ¾ of a point greater than for the longest bonds, and when this possibility was partially offset by the better income return for the period to be obtained from the longest term 2½s it did not seem to make much difference which issue was selected.

Stability of Long Term Interest Rate

By this time you must have reached the correct conclusion that when it comes to forecasting the 1952 market the speaker is quite confused, so let's turn to something which really isn't so confusing, i.e., the stability of the long term interest rate, because if that stability is reasonably ensured then most of the blots on the escutcheon of long term bonds fade out. Also, the halo surrounding the heads of the short-term-easily-convertible-into-cash-without-material-loss issues stops shining quite as brightly as it seems to in the minds of those who cannot reconcile themselves to a long period of a supply of credit ample enough to offset any conceivable increase in demand, so let's discuss the interest rate in as few words as possible.

What Is the Interest Rate?

I think the most simple definition is that the interest rate is the index of the relationship between the supply of and the demand for credit. It follows, I think, that if the supply of credit has a fixed maximum (as it had under the National Banking System which ended in 1914 when the Federal Reserve System became operative) then an increase in demand must of necessity raise the index but if the supply can be increased—as it can today—then those in control of the supply can readily—if they think it advisable—offset the increase in demand and prevent much of any change in the index. Actually this is what has been done, especially since the Banking Acts of 1933 and 1935 added variable reserve requirements and—perhaps more importantly—active Open Market operations to the previous classic but then nearly obsolete and ineffective control over the rediscount rate.

In short, the institution of the Federal Reserve Banks as Central Banks of Rediscount (credit is provided by the issue of Federal Reserve Notes) and **Issue** so altered the basic factors determining the interest rate as to make valueless any conclusions drawn from a study of interest rate behavior under previous conditions, such for example as the fact that at times in the past the short term has been greater than the long term rate for considerable periods. Now that—in capsule form—is the basis for the assumption that there will be little change in the long term rate for many years. The rate is in the control of the managers. Ask yourself the question, What would you do in their place? With an interest bearing debt of over $253 billion and an annual interest cost now of over $5½ billion; with $66 billion of demand obligations whose holders can get their money any time a better interest return than what they are now receiving becomes available, and with the knowledge that every year for the next four or five years you were faced with the necessity of refunding $40 or $50 billion—what would you do? Doesn't the question answer itself? You would, I think, do all you could—and you could do a great deal—to keep your costs on as even a keel as possible, wouldn't you? I think you would and I think they will. So much of that, except that I do hope some of you will disagree and have questions to ask which might serve to bring out some angles not covered at all.

Fluctuations in Government Bond Prices

A great many people get very excited and worried over day to day changes in market quotations so perhaps it might be just as well to take a look at what has happened to prices since the end of the war financing. The bellwether of your flock of safe income producers is, of course, the two longest term 2½% bonds which mature in 1972, are callable five years earlier, and will be a proper purchase for Commercial Banks in 1962. They were issued on the 7th and 8th War Loan Drives in 1945. The Victory Drive in December, 1945 was a huge success and culminated a speculative spree in long bonds. The effect of the enthusiasm didn't wear off for the Ineligible Bonds until April 6, 1946 when the Victory 2½s sold at the all time high of about 106½. Actually there were too many of them to find permanent homes immediately, and when the speculators began to try to get their profits they found such an air-pocket that in less than a month the price was down to 102⅝, a nearly four point decline.

Call that, if you like, the correction of a binge stimulated by profit expectations. But the correction was somewhat overdone and the bonds picked up quite promptly to 104 and then sagged down by the end of the year to just below 102, a two point swing. Thereafter they gained about 1½ points to about 103½ in the first-half of 1947 and remained in the neighborhood of 103 until the October and November decline which ended on Christmas Eve 1947 with the establishment of the well remembered "peg" price of 100¼. Thereafter for all of 1948 and the first-half of 1949 the variation in price was less than 1 point. Then the Open Market Committee of the Federal Reserve publicly decided to stop selling bonds, whereupon there was a sharp rise of nearly 3 points to a high of about 103⅞. This was

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Savings Banks and Government Bond Market Outlook

at the end of 1949. Here the Open Market Committee changed its tune—made bonds available from day to day and followed the bids down so that we now have a price of about 102, and naturally everyone is asking everybody are we near another bottom and where is the bottom.

Now the excuse for this rough market resume is simply to remind you that once the speculative furor of early 1946 had corrected itself, the market for the best yielding U. S. Government 2½% bonds has only varied within a range of about three points. For all of 1948 and the first half of last year these bonds could have been acquired between a little over 100¾ and slightly above 101. They rose 3 points in the last 6 months of last year and have since declined 2 points, the rise last summer and fall being the direct result of the action of the Open Market Committee in shutting off the supply and the decline since the first of this year being the natural effect of again making the supply available. So now the market is back to within 1¾ points of the "peg" and just about in the middle between the high and the low since the end of 1947, and I think it is correct to say that the high was the result of an artificially produced market scarcity, that the rise went further than either the Treasury or the Federal Reserve either liked or expected, and that hence the action of the Open Market Committee in again selling bonds as they have consistently since January 1 was not only a correction of an error on their part but is quite revealing as to their attitude as to where they would like the bonds to sell.

I think that the 18-month record from Jan. 1, 1948 to June 30, 1949 during which the bonds stayed between 100¼ and 101 and during which—at times—the Open Market Committee was buying quite heavily gives us a pretty definite price floor, so a buyer today at 102 has very little more decline to fear. I cannot get excited about another 1 point decline. To put it briefly, the market seems to be reaching the buying range. At 102 these bonds have an amortized yield to call date of 2.35%; at 101 it would be just over 2.40%. Somewhere between those two prices looks like the next bottom.

Now two more points which ought to be made are: (1) The present Treasury interest pattern is, and has been, the coupon pattern. Premiums of discounts result from market appraisal; and (2) Changes in the total holdings of the "Fed" broadly speaking reflect increases or decreases in the base of the credit supply, but changes in the maturity composition of the Federal Reserve portfolio of governments is the reflection in reverse of the composite action of all other holders of such securities. In recent years an increase in the "Fed" holdings of the longer bonds was a sign that other holders either were finding other uses for their funds or were fearful of market behavior. A decrease in such holdings by the Federal indicated the reverse. From the middle of 1946 to the end of 1949, for example, life insurance company holdings of government bonds declined over $6 billion. For that same period the deposits in Savings Banks increased nearly $2½ billion. Holdings of government bonds actually declined a little. You were adding to your mortgage portfolios, and to a lesser degree to your corporate bonds. So were the insurance companies. Naturally the Federal Reserve took up the over supply.

Then again off and on there were periods of market apprehension and again the Federal Reserve was the primary recipient of the over supply in the market, which I might say has worked out very nicely for them. The record proves it. So far market apprehension by holders of government bonds resulting in purchases of such bonds by the "Fed" has been followed by periods in which the apprehension died out, the previous sellers got back in the market—they had to put their money to work—and to a large extent in due course bought back their bonds from the "Fed" which as a result added nicely to its "profit from the sales of government securities" account. The Treasury now gets 90% of Federal Reserve earnings, so the operation helps out the tax payer to a minor degree but the original scared seller did not come off so well. So far a pretty good rule of thumb would have been, both from a trading, but even more from an investment standpoint, always to buy when the Open Market Committee was adding to the over-5-year sector of the Federal Reserve portfolio. To do so has pretty nearly assured making the purchase at about the bottom of the market—so far.

What of Future Fluctuations?

So much for how they have behaved—How will they probably behave? Whereupon the speaker, who has been on moderately firm ground so far, steps off into the quaking bog of guesswork and becomes as well a giraffe with his neck well out. However "coming events cast their shadow before." We have quite a lot to go on. Let's take a look into the crystal ball.

The *first* thing we see is a rising government debt—very clear that vision! The second vision, a little clearer but not too clear, is the Treasury Department selling new securities for new cash to finance the deficit. Third is a foggy just where is business going? Up—sidewise—or down? Lots of tempered optimism but no real certainty — and where business goes is very important. The fourth —and no doubt about this one— an important Congressional election this fall. Very important in our star-gazing that is. Let's examine those four visions.

(1) The government debt is rising. Hardly news but a very disturbing development at a time when the gross national product of the country is at all-time high levels. The gross debt started to rise in the last quarter of the government fiscal year ending June 30, 1949. Since March 31, 1949 the gross debt has risen $4,081 million —from $251⅔ billion to $255¾ billion—but the marketable debt which includes the "Tap" bonds has declined over $1,100 million. How come? Largely because of the popularity of the series D savings notes where the amount outstanding increased over $3¾ billion for the one-year period. Painless and rather unnoticed but the Treasury got the money. Also, just temporary money, tax anticipation financing—money obtained now instead of when the taxes— mostly corporate — are actually payable.

The marketable debt shrank chiefly because of all the refunding operations none of which were rolled over 100% for the new issues. Roughly between 5% and 7% or 8% had to be paid off but it is worth noting that there is now about $1 billion less of the securities we see quoted and traded than there was a year ago. Now, however, the budget deficit for the fiscal year ending June 30, 1949 and for the ensuing fiscal year clearly forecasts additions to the marketable debt total. Various estimates of cash needs have been made — say between $1 billion and $2 billion between now and June 30 and possibly $4 to $5 billion for the following six months, —so we come to the second vision in the crystal—what kind of securities will be sold?

To begin with, the Treasury is now getting an extra $100 million a week by increasing the offerings of Treasury bills and will probably continue to do so for some weeks more. Then there will be a series E savings bond drive running from May 15 to July 1 with a sales goal of $654 million, but that won't produce much new cash when redemptions of old bonds for the period are deducted. Then there is the thought that what was done in July last year in reopening subscriptions to series "F" and "G" bonds be repeated. That would be in line with the expressed wishes of the Federal Reserve that new financing be confined as largely as possible to other than commercial banks in order to avoid the inflation of bank deposits. To the extent such subscriptions were paid for out of already existing bank deposits no inflationary effect would result, but to the extent that subscriptions were paid for by selling marketable government securities, commercial bank deposits would be inflated. This form of financing looks to me to be the most advantageous and least harmful at the moment. On the other hand, it would be expensive to the Treasury as most of the subscriptions would be for the "G" bonds which carry the full 2½% cost. What about more marketable issues?

Here we have a clearer vision of when if not what. On June 1 $5 billion of 1¼% certificates mature. On July 1 $5½ billion more of same, 90% owned by commercial banks, all other investors (which includes corporations) and the Federal Reserve, in that order. Current star-gazing expects a one-year 1¼% to be set on July 1, but is mixed on what will be offered on June 1, but anticipates the possibility of something longer than a certificate either with a 1⅜% or a 1½% coupon, while commercial bankers have their hopes set on a 1¾% rate, which I think unlikely at that time. None of this has any particular applicability to you — except the F and G bonds—except that if correct, it negatives the imminent possibility of a new long-term 2½% at 100 and that there is nothing in it which should have any effect on the prices of what you own the most. Well—yes—there is one small possibility. The appearance on the market of bonds which you and the insurance companies and others might sell to get F's and G's. But the Open Market Committee could readily offset any such increase in supply by a cessation of present sales or by a little buying, if required.

So we come to the third vision —the state of business in the months to come. About the only thing safe to say is that it will be somewhat better — somewhat worse—or about the same. You can write your own ticket. If it's about the same, current monetary policies can hardly be expected to change. If it gets worse we can surely expect easier money to be an objective. If it gets better to the extent of threatening a renewal of inflationary conditions, we can be sure that the influence of the Federal Reserve would be thrown on the side of credit restrictive policies.

Of these three the last—the inflationary threat—seems the least likely. We appear to have productive facilities more than ample to meet any increase in demand. The tremendous housing programs can hardly get greater. Certainly we have a more than ample labor supply. We can hope to stay about where we are, maintaining a high gross national product and enough disposable income to find a market for the products, but current unemployment figures are not encouraging. It could be that after the mid-year there will be some evidence of a down turn which would give Washington some concern. So we arrive at the fourth vision in our glance at the future. This is an important election year. Politically a sense of well being among the voters — whether founded on rock or sand— is vital to the interests of the party in power. Like it or not we can be sure that if unemployment should decrease the measures necessary to provide the voter with some sort of employment would be instituted. Governmental work projects of every description would be undertaken. All of which takes money. Under such circumstances the demand for credit would be likely to decrease but the supply would be likely to increase so the interest rate index of the the supply-demand relationship would tend to be depressed. Do you see what I am getting at? Why the probability of any higher interest rates seems to me to be so remote? So my answer to the question as to how these bonds of yours will behave is, very satisfactorily, very comfortably, especially for those whose chief concern is the regular receipt of the safest recurring annual income now available to anybody. Perhaps not so satisfactorily for those who have a yen for squeezing out or trying to squeeze out a little extra here and there by catching market swings, because the area of the swing seems to be contracting.

Conclusion

So we come back to where we started. For the investor — and your record shows that you are primarily investors — the longest government bond with the best coupon at the lowest premium seems to be the best bet.

Last week Mr. Roelse of the Federal Reserve Bank of New York ended an address before the savings bank bond men of the State of New York with these two paragraphs:

"It appears that many people become unhappy when they see the appreciation in their bond accounts melting away as bond prices turn down, and do not give adequate consideration to what substantial premiums mean in terms of the yields they are about to get on new investments. As we said in reply to a letter from one of our member banks concerning this general subject, it seems to us that banks and other investing institutions can safely regard fluctuations of a couple of points (or even more) in prices of long-term bonds without concern, provided the distribution of securities in their portfolios is appropriate to the character of their business. It is a comfortable feeling to have a nice margin of market value over cost, but such a margin usually means that new investments can be made only at less advantageous yields.

"If we accept the proposition stated by Mr. Sproul, to which I referred earlier, that there cannot be a purposeful monetary policy unless the Federal Reserve System is able to pursue alternating programs of restraint, 'neutrality,' and ease, and that such changes of policy must be reflected in interest rates, we cannot expect to avoid some fluctuations in prices of government and other bonds. The long-term holder of long-term bonds need not be concerned, but the investor who attempts to get a long-term rate for short-term holding—and perhaps a trading profit as well—must assume the risks of such a policy."

That expresses my sentiments to a "T."

Continued from first page

The Economic Situation And Unemployment

ment situation. Total civilian employment in that month, according to the Bureau of the Census, totaled about 57,600,000, an increase of 600,000 from February. Gains in employment were recorded in agriculture, construction, trade, and many manufacturing industries. The Bureau of Labor Statistics' reports show an increase in manufacturing employment, particularly in the hard goods industries, including non-electrical machinery, machine tools, refrigerators, radios and television, foundries, etc. This pick-up reflected in part some seasonal increases that normally occur at this time of the year, in part some recovery from the strikes in February, and in part the general business revival.

Unemployment, likewise, decreased in March by 550,000, the first marked decrease since the unemployment figures began to climb in the fall of 1948. When the unemployment figures are adjusted for normal seasonal variations, the March decline in unemployment is doubly significant. Furthermore, reports from the Bureau of Employment Security show that the continued claims for unemployment insurance in the States declined by 400,000 from early March to early April.

The immediate short-run outlook seems equally favorable. Normally April and May would show further declines in unemployment from the March level. If business continues to pickup, we should see some further reductions in the unemployment figures in these months. However, in June and July there may be a sharp rise again. These are the months in which the young people from the schools and the women from the homes enter the labor market, some of them seeking permanent jobs and others only temporary jobs over the summer. Because of the sharp increase in the labor supply in a comparatively few weeks' time, there are usually more entrants than can be absorbed quickly, although this depends to some extent upon seasonal factors at that time in agriculture and in industry.

The above analysis relates entirely to the short-run situation. Let us look a little more closely at some of the longer-run trends.

Employment and Unemployment Trends Since 1948

(1) Between the fourth quarter of 1948 and the third quarter of 1949 **total employment** declined by more than 1½ million (seasonally adjusted), with almost all of the reduction in manufacturing and transportation. In the same period **unemployment** rose from a level of about 2 million (seasonally adjusted), to about 3¾ million, or at an average rate of almost 200,000 per month.

(2) Between mid-1949 and March 1950, employment and

business activity showed partial recovery in that **total employment** (seasonally adjusted) rose by 600,000 from the July 1949 low. The effects of the steel and coal strikes slowed down the revival in the last quarter of 1949 and in early 1950, but since February it has gathered new momentum.

(3) With the continued growth of the labor force (at a rate of almost 1 million annually, at present) unemployment (seasonally adjusted) has shown no net change between mid-1949 and March 1950. There was, in fact, evidence of a slight rising trend of unemployment last fall and winter, but this has been offset by the sharp pick-up in hiring this spring.

(4) However, unemployment at present levels still constitutes a serious problem for particular groups of workers and particular areas:

(a) Increase in long-duration unemployment (in thousands):

	March 1950	March 1949	March 1948	% Change 1948-50
Seeking work 15-26 weeks	720	400	250	+188
Over 26 weeks	450	120	110	+309
Total, 15 weeks and over	1,170	520	360	+225

(b) Exhaustions of U. C. benefits (in thousands):

1949 4th quarter	590
1948 4th quarter	240
Percent change 1948-49	+146

(c) Increase in general assistance case load (in thousands):

February 1950	634
February 1949	461
February 1948	392
Percent change 1948-50	+ 62

There is in these figures clear evidence that some workers are finding it more difficult to get jobs. There is as yet no evidence of a special group constituting a "hard core" of unemployed, but there is a sharp increase in those who have been out of work over 26 weeks. The same point is emphasized by the rise in exhaustions of unemployment compensation benefits. This means that increasing numbers of workers have no protection through the unemployment insurance system. Finally, of course, this naturally leads to a rise in welfare needs. In my mind it is doubtful if the full effect of this has yet been felt. Unless unemployment declines considerably more during the remainder of this year, the welfare agencies may expect an increase in demands for their assistance.

(5) Problem groups in the working population:

(a) Youth has the highest unemployment rates, but the biggest relative increase in the incidence of unemployment has been among adult workers.

	Unemployment Rate —March— 1950	1948	% Increase
Total 14 years and over	6.7	4.1	+25.6
14-24	10.8	8.6	+25.6
25-54	5.6	2 9	+93.1
55 years & over	6.2	3.2	+93.8

(b) Nonwhites:

	Unemployment Rate —March— 1950	1948	% Increase
Whites	6.2	3.8	+63.2
Nonwhites	11.4	6.5	+75.4

(c) Areas with particularly high unemployment rates:*

(1) Increase in number of areas.

Number of major labor market areas:

Classification—	Jan. 1950	Jan. 1949
"D" (7.0-11.9% unemployed)	50	19
"E" (12.0% and over unempl.)	13	5

*Data from the Bureau of Employment Security.

(2) Two-thirds of the major "surplus" areas are in the North and East.

Number of "D" and "E" major labor market areas, January, 1950:

New England and Middle Atlantic	27
North Central	13
South	12
West	10

(6) In summary, we may say that the unemployment problem at this time is largely a question of determining who and where the unemployed are, and then deciding what, if anything, can be done strated during the past year and about them. The central and significant position of unemployment insurance has surely been demonstrated during the past year and a half. Without doubt, the mildness of the 1949 recession is due in some small part to the unemployment insurance payments to families who otherwise would have been destitute. Furthermore, the worst effects of unemployment upon particular families and communities have been mitigated by this program. In other words, unemployment insurance has proved itself as a social security measure in a period of moderate business decline.

Long-Run Trends.—There are a number of still longer-run trends in the American economy which will be a matter of deep interest to social agencies. One of the most significant of these is the war and postwar baby boom which has given the nation a sharply increased population for the decade of the 1940's—an increase considerably higher than expected. During the decade of the 1930's, the total increase in the nation's population was less than 9 million. In the decade of the 1940's it seems likely to be more than twice that much. An increase in population immediately following a war is quite usual; what is surprising in 1950 is the length of time during which this increase has been continuing.

The Baby Boom

(1) **Births** in 1948 and 1949 totaled 3.7 million, only slightly below the 1947 peak of 3.9 million, and more than 50% above the 1935-39 average of 2.4 million. In both January and February 1950 births continued at the same level as in the corresponding months of 1949. A sharp increase in the rates of second, third—and even fourth—births is a major factor in the continuation of the baby boom.

(2) **Marriages** declined sharply from a peak of 2.3 million in 1946, to 1.6 million in 1949, but were still about 16% above the prewar (1935-39) level. The decline was inevitable in view of the depletion of the single population. However, the proportion of married women in the population has continued to rise in the past few years and is probably at a record level now.

The attached table, prepared from data in the National Office of Vital Statistics, shows the numbers of births and marriages over the last 15 years:

ESTIMATED BIRTHS AND MARRIAGES IN THE UNITED STATES, 1935-1949

	*Births Number (Thousands)	*Births Index (1935-39=100)	Marriages Number (Thousands)	Marriages Index 1935-39=100)
1935-39 average	2,420	100.0	1,380	100.0
1940	2,560	105.8	1,600	115.9
1941	2,710	112.0	1,700	123.2
1942	3,000	124.0	1,770	128.3
1943	3,130	129.3	1,580	114.5
1944	2,970	122.7	1,450	105.1
1945	2,890	119.4	1,610	116.7
1946	3,460	143.0	2,290	165.9
1947	3,880	160.3	1,990	144.2
1948	†3,720	153.7	†1,800	130.4
1949	†3,730	154.1	†1,600	115.9

*Corrected for under-registration. †Provisional.

SOURCE: Federal Security Agency, National Office of Vital Statistics.

It will be noted that the decline in marriages over the last few years has not had a significant effect as yet upon the number of births. Further investigation of this fact brings out a most significant development. This is that the families in recent years are becoming somewhat larger on the average. In other words, the long term down-trend in the average size of families has been interrupted. The following table from the National Office of Vital Statistics shows the increase in births of a second, third and higher order. Note, for example, that the number of first births declined from 45.1 in 1947 to 38.5 in 1948, but there was a significant increase in second and third births in the same family. In fact, the ratio of these second and third births are now picking up to levels higher than in 1920.

BIRTH RATES BY BIRTH ORDER PER 1,000 FEMALE POPULATION 15-44 YEARS OF AGE

Birth Order	1948	1947	1946	1940	1930	1920
Total	104.8	110.1	98.3	73.5	79.3	101.0
1	38.5	45.1	36.7	27.0	25.4	29.7
2	29.9	29.0	26.5	18.3	17.5	20.9
3	15.5	14.8	13.7	10.0	11.3	15.1
4	7.6	7.5	7.3	5.8	7.6	10.8
5	4.2	4.2	4.2	3.6	5.2	7.7
6 and 7	4.3	4.3	4.3	4.2	6.6	9.5
8 and over	3.3	3.3	3.4	3.7	5.8	7.9

SOURCE: National Office of Vital Statistics.

This trend in population is producing some marked effects upon our schools, and we are still in the early stages of this development.

School Enrollment Trends

High birth rates of 1946-50 may have created an "overcrowded generation"—a group in the population who, as they go through life will strain the capacity of social and economic facilities provided for smaller population cohorts. This may create or intensify frictions and give rise to personal maladjustments which call for the aid of social work agencies.

Example: the schools: Elementary school enrollments are due to increase from about 20 million in 1949 to 27 million in 1957, or 35%. In 1949, 75,000 new elementary school teachers were needed to provide for added enrollments and to replace teachers dying, retiring or leaving the profession; only 25,000 teachers were trained. In 1954, 100,000 new teachers will be needed — four times the 1949 rate of training.

This, plus a developing shortage of school facilities, means overcrowded buildings, large classes, (classes of 45, 50 or more pupils per teacher are common), and a minimum of that personal attention to pupils which makes it possible to spot adjustment problems early and prevent serious maladjustment or delinquency.

College Graduates

The higher age groups represented by high school and college students have not as yet been affected by the increasing birth rates of the past decade. However, these will be affected later on, the high schools by the middle 1950's and the colleges during the 1960's. In the meantime, however, another economic trend that bears watching by the social work profession is the increasing proportion of young people who are going to college.

College enrollments currently are 2.4 million compared to 1.4 million in 1940. The President's Commission on Higher Education has set as a goal—which may not be attained — 4.6 million young people enrolled in colleges and universities by 1960. This goal assumes that one-third of the young people would complete four years of college.

The Bureau of Labor Statistics' studies of employment trends and outlook in professional and administrative occupations — to which most college students aspire—suggest that there would be employment opportunities in these fields for only a part of the college graduates. Unless the others are given good vocational guidance which points to the likelihood that they may have to seek their careers in sales, clerical, or other fields, there is likely to be a great deal of disappointment and frustration on the part of these young people. In other words, unless a good job is done by educators and guidance people, the social work profession may have to help pick up the pieces.

On the positive side, the effect of the increase in college graduates will be salutary to the extent that a college education is put in its proper focus: as a preparation for living, as well as for working.

We have already gone far from the days when the benefits of advanced education were considered the peculiar possession of a privileged handful. We still have a long way to travel, however, before there is general recognition that a college education can produce dividends in terms of a broadened horizon and of a fuller life, which are quite independent of its possible value as an "investment" in a future job career.

Older People and Their Problems

At the upper end of the age scale the Nation is now coming to grips with some trends which have been operatiang over past decades. One in particular is the rising proportion of older people in the population. In the year 1900, only four persons in a hundred were 65 years of age. In 1950, when the Census completes its work, we shall probably find that this proportion has nearly been doubled. In actual numbers, the figures were 3 million in the year 1900, and about 11 million in 1950. The prospect is for further increases in this old age group, both in absolute numbers and also in the proportion of the total population.

This has brought us face to face with the problem of old age retirement for those who can no longer earn a living by work. Here we find the problem is accentuated by another trend, namely, the lessening possibility of work for people over 65. For example, in the year 1900, about two-thirds of all the men over 65 expected to work for a living; only a third were in any kind of retirement. By 1940, only 43% of such men were in the labor force (and not all of them were employed). During the war the proportion of older men at work rose to about 50%, but by 1949 the ratio had fallen again to 46%. Furthermore, the long-run trend is downward and this ratio will decline some more in future years.

In the meantime, the Nation has devised a variety of ways of meeting this problem. We have old age assistance, Federal old age insurance, industry pension plans, union pension plans, collective bargaining plans, life insurance annuities, private savings, and other traditional methods. There is no time in this paper to discuss this basic problem. It is necessary only to indicate the obvious fact that we have not yet worked out an integrated program that is at all satisfactory from either a social or an economic point of view. The Congress of the United States is now working on a major revision of the Federal Old Age and Survivors Insurance program. The situation should be somewhat better when they have completed the work, although much more will have to be done. In fact, on the domestic front this is one of the most critical problems which the American people face. Increasing public attention will undoubtedly be devoted to it during the next few years.

There is a second phase of this problem which also requires attention, although its critical stages will occur some years hence. That is the problem of the older working population—men and women between the ages of 45 and 64. Many of you are familiar with the recent articles in the "Survey Magazine" on this subject by William Haber of the University of Michigan, and myself. There is no time here for a further discussion of this point.

Summary

There are many other problems on which I have not had time even to touch. I think I can best sum them all up by saying that our economy is becoming steadily more complex. This means that increasing proportions of our people have difficulty in adapting to life in this kind of a social order. Our production, our wealth, and our standard of living is increasing. The productivity of American industry, after some dislocation during the war, is on the up-grade again. The economic machine is working well. The problem which the nation has is assisting in the adjustment of all people so that the benefits of our marvelous productive economy can be widely distributed among all Americans.

Social agencies and social workers constitute one of the key groups in assisting in this adjustment. We shall find that even in the midst of business prosperity and high employment there will be a great deal of work for social workers to do. It will be to the nation's economic benefit to have such work done. Our fundamental goal must be to maintain the highest possible levels of production and employment, but we must also try to insure that all classes of people share in benefits which flow from that. I, therefore, urge that social workers study these basic economic trends in order that they may determine better just what the job is. I am sure they are going to find plenty of work to do.

Continued from page 2

The Security I Like Best

Holland Tunnel, Lincoln Tunnel, George Washington Bridge, Bayonne Bridge, Goethals Bridge, Outerbridge Crossing, Port Authority Grain Terminal and Piers, Port Authority Building.

(2) By a claim on the General Reserve Fund equal to the claim of any other issue.

(3) By a claim on the Special Reserve Fund superior to the claim of other "General Reserve Fund Bonds" as to 50% of the accumulated total paid into the fund.

So much for the present security of the General and Refunding Bonds; now as to how it came about.

In its early days the Authority financed its various projects separately, as they came along. But by 1935, with its credit established and its bonds popular, it was able to begin a comprehensive refunding program to reduce interest charges, serialize and extend maturities, and consolidate its debt. This it did by calling the bonds outstanding on the old facilities and redeeming them with the proceeds of General and Refunding Bonds. At the same time it set up the arrangement whereby new facilities, when completed and in operation, could be refinanced with General and Refunding Bonds.

In 1947, in view of the large financings which it was evident would be needed for the Air Terminals, the Authority passed resolutions to strengthen its bond reserves. In addition to the sum equal to 10% of par value of debt to be maintained in the General Reserve Fund, it was then stipulated that the General Reserve Fund and the Special Reserve Fund must keep on hand an amount equal to two years' debt service on all "General Reserve Fund Bonds." This provision, of course, gave further protection to the General and Refunding Bonds.

(On Dec. 31, 1949 the two reserve funds held more than four times the mandatory debt service actually paid out in 1949.)

There always had been careful restrictions on the issuance of General and Refunding Bonds for any purpose except replacing the bonds of established projects, but in 1947 resolutions were passed to prevent dilution of the security of old General and Refunding Bonds by the refunding of the construction bonds of operating but still unripe facilities. It was decreed that such refunding could be done only if "in two consecutive 12-month periods out of the preceding 36 months, and also in 12 consecutive months out of the preceding 15 months, either

"(1) The net operating revenues of the new facility cover debt service for the ensuing year on the new General and Refunding Bonds at least 1½ times, or

"(2) The net operating revenues applicable to debt service on all outstanding General and Refunding Bonds and on the new bonds cover the combined debt service for the ensuing fiscal year 1½ times."

The legal security of the General and Refunding Bonds has been strengthened by these progressively severe provisions. Their more immediate protection, "times interest earned," has improved with the growth of revenues.

	1945	1948	1949
Gross Operating Revenue all facilities	$19,344,475	$31,930,328	$37,524,910
Gross Operating Revenue G. & R. facilities	19,344,475	29,188,773	32,846,635
Net Revenue Available for G. & R. Debt Service	14,144,235	21,351,690	23,729,412
Debt Service G. & R. Bonds	7,211,957	7,500,107	8,441,594
Times G. & R. Debt Service covered	1.96 times	2.84 times	2.81 times

In 1949 net for debt service covered 2.26 times the interest, sinking funds and maturity payments of **all** the Authority's bonds.

Marketability—As of Dec. 31, 1949 there were outstanding 8 series of Port of New York Authority General and Refunding Bonds of a total par value of $217,530,000, with coupons of 1¼% to 4%, maturing from 1950 to 1986. At present market quotations various of them can be bought to yield from about .70% to 2.00%.

To an institutional buyer, one of the special merits of the General and Refunding Bonds, all series, is their excellent marketability. The spread is seldom more than ¼% to ½% even on the serial maturities. Through the depression, through the war, and in the various erratic markets of the past 15 years, these bonds have enjoyed a broad, active, and close market.

Growth — Gasoline restrictions during the war reduced Gross Operating Revenues of the Authority nearly 20%, from $18,676,682 in 1941 to $14,963,842 in 1943, but since then there has been no falling back; 1949 was double 1941. And the first two months of 1950 show an increase in both gross and net.

Present Stature — The Port of New York Authority now operates or has under construction:

Bridges & Tunnels:
- Holland Tunnel.
- Lincoln Tunnel.
- George Washington Bridge.
- Bayonne Bridge.
- Goethals Bridge.
- Outerbridge Crossing.

Air Terminals:
- LaGuardia Airport.
- New York International Airport (Idlewild).
- Newark Airport.
- Teterboro Airport.

Other Terminals:
- Port Authority Inland Terminal No. 1 (Port Authority Building).
- Port Authority Grain Terminal.
- Port Newark.
- New York Union Motor Truck Terminal.
- Newark Union Motor Truck Terminal (not yet opened).
- Port Authority Bus Terminal (not yet opened).

Efficiency—The physical efficiency of the Authority's facilities needs no discussion. Users find them convenient, clean, orderly, and operated with courtesy and speed.

Operating efficiency records itself in financial efficiency. Last year 59.72% of gross was carried through to net for debt service. In other words those who had lent money to the Authority, by buying its bonds, had the satisfaction of knowing that, of every dollar received in tolls and rents, 59 cents was available if necessary to pay their interest, and to retire their bonds at maturity or before.

Importance — The Commissioners of the Port of New York Authority, appointed by the Governors of New York and New Jersey, serve without compensation. In the 29 years since the Authority was created in 1921, these unpaid office holders have benefited every person in the metropolitan area by making transportation quicker and safer, food cheaper, employment easier to find, than it could have been without the Port faciliites.

The Authority has rendered distinguished service on the material plane, but by far its greatest contribution to our national life is the demonstration of how public servants act when their pride and their ambition is to serve their fellow citizens.

With nothing to gain but respect and self-respect, the commissioners have planned, built, and operated the constantly expanding enterprises of the Authority with a foresight and an efficiency equalled only by our largest corporations.

Double Duty — The Commissioners of the Port, and apparently workers all the way down the line, hold clearly in mind the Authority's duty to the public, for whose benefit it was created, and to its bondholders, without whom its plans could not have taken shape in steel, concrete, and beauty.

Sources — Annual Reports and Official Statements of The Port of New York Authority. "A Study of The Port of New York Authority" by Dr. Frederick L. Bird, Dun & Bradstreet's, Inc., 1949, from which quotations are made and many facts were gathered.

SEYMOUR KATZENSTEIN
Hirsch & Co., New York City

(Columbia Gas System, Inc.)

Columbia Gas is a leader in all phases of the growing natural gas industry and during 1949 reported peak natural gas sales which are expected to expand 50% by 1952. This increase compares with a gain of 23% forecast for the industry.

Seymour Katzenstein

The company indicated in its 1949 annual report that natural gas sales to the public this year would total 320,000 Mmcf.; in 1951, 360,000 Mmcf.; and in 1952, 382,000 Mmcf. In the past, and particularly since the war, there has been a steady relationship each year between increases in gas deliveries and gross revenues. Assuming that this relationship continues, and based on the natural gas deliveries cited above, a scatter chart projection suggests that gross revenues from natural gas sales this year will total about $136 million; in 1951, about $153 million; and in 1952, about $163 million. Such sales would compare with the $114,500,000 reported for 1949.

This substantial improvement is the result of many years of hard work by the management, planning and ingenuity. The objective in 1946 was to increase natural gas supplies and capacity to the point where the demands of all customers, including new communities which might look to Columbia for their supply, could be satisfied. New sources of natural gas had to be obtained, the underground storage facilities had to be enlarged and transmission and distribution expanded. During the last four years some $168 million has been spent and the expansion program is now virtually completed. An additional $27 million is expected to be expended this year.

The most spectacular part of the expansion program has been the development of underground storage capacity in the service territory. The Appalachian area prior to the war supplied most of the natural gas purchased. Sources in Kentucky, Ohio, Pennsylvania and West Virginia now are not sufficient to satisfy normal demand and are grossly inadequate in terms of the future. The Appalachian supplies have been substantially augmented with gas transported from the Southwest via the great network of pipelines which have been built up since the war.

These new supplies overshadowing other sources enable the System to service more customers with increasing amounts of natural gas. The storage facilities are expected to permit year-round service without restriction to any consumer classification. Furthermore, and most important, underground storage allows the company to have available close to its marketing areas sufficient gas to meet peak seasonal demand without having to pay maximum rates to the transmission companies during the winter months. The company, accordingly, has been able to make long-term contracts at minimum year-round rates.

Natural gas is now distributed and sold in over 1,200 communities to more than 1,000,000 residential, commercial and industrial customers. Gas is also sold at wholesale to other public utilities which in turn sell to consumers numbering approximately 800,000. The total population served is over 7,000,000.

In 1940, industrial sales amounted to about 22% of total gas revenues. Residential and commercial sales produced about 55%. Last year the percentage figures were nearly the same. However, at the beginning of the decade, the Federal Reserve Board Index of Industrial Production averaged 125 compared with 183 estimated for March, 1950. About 80% of the present enlarged wholesale load is for residential and commercial service. Accordingly, total service to other than industrial customers is assuming greater relative importance. It is estimated that natural gas deliveries in 1952, assuming that none goes to industrial users, will amount to about 290 billion cubic feet or more than the total natural gas delivered last year.

Columbia Gas common stock is currently selling in the market at about 17 times 1949 earnings of 84 cents a share. Some of the future improvement in revenues is undoubtedly being discounted. Because of the conservative capital structure—the equity is presently about 51%—the unique position of the company, the sound territory and the stronger residential and commercial load, it is believed that the stock will sell in the market for 12-13 times future years' earnings. It is expected that earnings per common share this year might be around $1.25 a share and further gains are looked for in 1951 and 1952.

COL. HERBERT G. KING
Member N. Y. Stock Exchange

(Hackensack Water Co. Common)

The best way to anticipate how a security will behave in the future is by studying how it has acted in the past. Accordingly, when I consider what security I like best for the future, I cannot help being influenced by the record of an old favorite of long standing. The security that for many years I have never wanted to be without, is the common stock of the Hackensack Water Company. It has been a good friend throughout good and bad times and its prospects for the future now look brighter than ever. With its well maintained earning power and unbroken dividend record of 64 years, its conservative capital structure and high credit rating, the common stock well merits the attention of the investor who is desirous of combining safety, yield, and the possibility of future growth for his capital.

Col. Herbert G. King

The Hackensack Water Company supplies water without competition to over 50 communities in Hudson and Bergen Counties in New Jersey and to the adjoining communities in Rockland County, New York. An expanding and prosperous population of over 425,000 is served and the territory supplied has wonderful growth possibilities as it is a residential area close to New York City. The George Washington Bridge and the Holland and Lincoln tunnels have made commuting easier and more attractive to many people and the resulting building boom in New Jersey has greatly increased the number of the company's customers.

The outstanding characteristic of this stock is the stability of its earnings and dividends. Since 1946, the dividend rate has been $1.70, payable 85 cents semi-annually, June and Dec. 1. Previously, a $1.50 rate had been paid for many years. The management is both experienced and progressive and the company's excellent earning record speaks well for the ability of those in charge of its affairs.

There are 384,375 shares of common outstanding after a 25% stock dividend paid on March 1, having a book value of $39 a share. Listed on the New York Stock Exchange and selling at 33, paying $1.70, yielding over 5%, having an excellent record of earnings, and having paid a dividend every year since 1886, the stock is one that every investor should consider. It has treated its owners well in the past and when I look to the future, it is hard to see how I can help but choose my old friend, for I confidently expect that it will act the same way in the years to come. Listed on the New York Stock Exchange, Hackensack Water common, in my opinion, is most attractive for investors primarily interested in obtaining a steady income, as well as security.

FREDERICK MARTIN
Director, Investment Research Dept., Joseph Faroll & Co., New York City

(The Studebaker Corporation)

The best commitment for my money is the stock of a company whose: (1) production is moving forward vigorously; (2) share price does not reflect the improved position, and (3) prospects appear sufficiently clear for a long enough time to permit the stock price to respond to current earnings and possibly to anticipate the good prospects. The intense selectivity shown in the market in recent years has proved the futility of indiscriminate buying, based on past performance, of even some of the blue chips.

Frederick Martin

Studebaker meets my requirements. (Price 31.) We shall take up Studebaker's qualifications, and see if you agree.

(1) The company's production is moving forward vigorously.

Record production of 75,000 cars in the quarter ended March 31, 1950, compares with 49,000 in the same quarter of 1949. Deliveries in March were 21% greater than in February this year — Studebaker's best month, previously.

The fact that Chrysler has been on strike for three months has

contributed to Studebaker's prosperity, but the following comparisons of data on production and car registrations of some of the principal competitors, indicate Studebaker has been making significant gains in percentage of total cars produced in recent years, as well as in the last quarter.

New Passenger Car Registrations (% of Total)

	*3 Mos. 1950	*1949	*1948	1940	1937	1929
STUDEBAKER	5.3%	4.4%	4.1%	3.0%	2.0%	2.1%
Chevrolet	25.9	21.7	19.8	25.1	22.0	20.1
Ford	21.4	16.4	14.0	15.9	22.0	33.8
Plymouth	3.5	11.2	9.7	12.9	13.3	2.2
Hudson	2.6	2.8	3.7	2.3	2.6	6.5
Nash	3.6	2.8	3.0	1.5	2.0	2.7

*U. S. passenger car production (Ward's Automotive Reports).

New management, new styling, and aggressive merchandising are permitting Studebaker to offer a good car in the lowest price class. The ability to do this on a high volume basis is the key to the success of the "Big Three."

In referring to the excellent progress made in increasing deliveries, Mr. H. S. Vance, President, said on April 8: "There is no doubt that the sharp upturn in our business last month was due in large part to the price reduction we made, effective Feb. 1. In addition, the introduction three weeks ago of our custom Champion, selling in the lowest price field, has attracted prospective car buyers to our dealers' showrooms in greater numbers than ever before.

It would appear from the above that the company is moving ahead vigorously.

(2) Price of the shares does not reflect the improved position.

For months the stock has been selling around 2½ times 1949 earnings and is still selling under three times earnings. Despite the reductions in car prices in 1950, it is believed earnings for the first-quarter of 1950 will exceed the $2.21 reported in the March quarter of 1949. Automobile shares in general appear behind the market, but Studebaker in particular seems retarded. Apparently, there is little general realization that such operating progress both as a company and, as against the automobile industry, is being made.

Higher dividends are expected. In 1949, $2.50 was disbursed. The payment in the first quarter of this year was 60c, an indicated annual rate of $2.40, which probably will be augmented by a year-end extra under most conservative estimates. This is particularly true considering the good financial position. Debt has been reduced from $14,500,000 in 1946 to $10,000,000 at the end of 1949, while net worth has more than doubled from $40,000,000 to $85,000,000 in the last three years.

The table below gives financial comparisons with those of leading manufacturers. Studebaker has relatively high dollar sales based on the conservative stock capitalization of 2,355,460 shares.

	Earnings	Price	Div.	Yield	Price-Earns. Ratio	Profit Margin	Sales per Com. Sh.
STUDEBAKER	$11.70	31	$2.50	8%	3	10%	$200
General Motors	14.65	81	8.00	10%	5	22%	130
Chrysler	15.19	68	5.25	9%	4	11%	230
Hudson	5.30	15	1.70	7%	3	9%	136
Nash-Kelvinator	6.04	20	2.15	11%	3	13%	84

Studebaker has become an important factor and has a good chance of continuing to obtain a larger share of the total automobile business. With a low price-times earnings ratio of under 3 to 1, and with good prospects of increasing the yield, which is now about 8%, the shares do not appear to reflect the improved position.

(3) Good conditions probably will exist long enough for the stock price to reflect the underlying improvement.

In the past, national income and auto production have shown correlation. Based on longer-term forecasts of national income, auto production this year should be at a record level. Who can believe a vote-minded, economy controlling government will, or can afford to permit much of a decline in dollar national income.

Strikes could affect Studebaker as they have Chrysler, and as they may again affect General Motors when the wage contract comes up in May. Probabilities are against a strike in Studebaker. In the past, labor relations have been good. Studebaker has met Detroit labor prices when they have been determined, without disastrous effects on production, profits, good will and quality of the cars. Studebaker has gained from the Chrysler strike and might well be a beneficiary in the event of another General Motors or Ford strike. Studebaker may be getting big enough to obtain many of the benefits of volume production without some of the disadvantages of huge size.

The automobile industry looks forward to another record year. Studebaker has good possibilities of clinching an increasing share of this prosperous industry because of progressive price reductions. National income is expected to remain high, and support high demand for cars.

Studebaker shares should eventually reflect the improved position, the higher earnings and the excellent yield, by selling at a substantially higher price. Studebaker shares have the qualities I like best in a security.

COMING EVENTS

In Investment Field

APRIL 28-30, 1950 (Greensboro, N. C.)
Southeastern Group of the Investment Bankers Association Spring Meeting at the Sedgefield Inn.

MAY 2, 1950 (Dallas, Texas)
Dallas Bond Club cocktail party at the Downtown Club, 4:30-6:30 p.m. for visiting dealers and wives en route to Texas Group IBA spring meeting.

MAY 4-5, 1950 (San Antonio, Tex.)
Texas Group Investment Bankers Association annual meeting at the Plaza Hotel.

May 26, 1950 (Cincinnati, Ohio)
Municipal Bond Dealers Group of Cincinnati Annual Spring Party and Outing at the Kenwood Country Club (to be preceded by a cocktail party and dinner May 25 for out-of-town guests).

May 30, 1950 (Dallas, Tex.)
Dallas Bond Club annual field day at the Dallas Country Club.

June 2, 1950 (New York City)
Bond Club of New York annual field day at Sleepy Hollow Country Club, Scarborough, N. Y.

June 5-8, 1950 (Canada)
Investment Dealers Association of Canada 34th Annual Meeting at the Seigniory Club, Montebello, Quebec.

June 8, 1950 (Boston, Mass.)
Boston Securities Traders Association Thirty-first Annual Outing at New Ocean House, Swampscott, Mass., with golf at the Tedesco Country Club nearby.

June 14, 1950 (Minneapolis, Minn.)
Twin City Bond Club annual picnic at the White Bear Yacht Club.

June 16, 1950 (Toledo, Ohio)
Bond Club of Toledo 16th annual Outing at the Inverness Club preceded by a cocktail party and buffet dinner June 15 at the Commodore Perry Hotel.

June 16-18, 1950 (Minneapolis, Minn.)
Twin City Security Traders Association summer party at Grandview Lodge, Gull Lake, near Brainerd, Minn.

June 16, 1950 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia annual field day at Whitemarsh Country Club.

June 23, 1950 (New York City)
New York Security Dealers Association Annual Outing at the Hempstead Golf Club, Hempstead, Long Island.

June 26-27, 1950 (Detroit, Mich)
Security Traders Association of Detroit & Michigan, Inc., and Bond Club of Detroit joint summer outing and golf outing at Plum Hollow.

Sept. 26-30, 1950 (Virginia Beach, Va.)
Annual Convention of the National Security Traders Association at the Cavalier Hotel.

Nov. 26-Dec. 1, 1950 (Hollywood, Fla.)
Investment Bankers Association annual convention at the Hollywood Beach Hotel.

Langley & Union Sec. Group Sell Delaware Power & Light Stock

W. C. Langley & Co. and Union Securities, as representatives of the group which underwrote the offering of 232,520 shares of Delaware Power & Light Co. common stock (par $13.50), to common stockholders of the company and to employees, including officers of the company and its subsidiaries, on April 26 announced that a total of 214,049 shares, or 92% of the offering was subscribed by stockholders and employees. The remaining 18,741 shares have been sold by the underwriters.

Central Hanover Appoints

William J. H. Crossen was appointed Assistant Treasurer of Central Hanover Bank and Trust Company at a regular meeting of the Executive Committee of the Board of Trustees.

With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS. CALIF. — Frederick W. Robinson has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, 454 North Camden Drive.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Long ago somebody — I think it was Thomas Paine— wrote something that went, "These are the times that try men's souls." The chances are I've misquoted the thing completely. Being lazy, I won't move across the room to refer to a thesaurus. Anyway, what I mean to say is the market is again in one of those yes-no-maybe positions that can drive a watcher crazy.

* * *

Last week I saw what I believed was a top. In fact I've been watching for a top if, as, and when the averages went to somewhere between 211 and 215. (Incidentally, last week's column quoted the figures 211-225; the latter figure was 10 points too high.) Well, finally the market did go to (and slightly better) than the 215 figure. During this process we got out of two stocks, one on a stop and the other when it went through the profit taking level, so we're out of the market. The only exception is Avco bought way back. Latter, however, is a long termer so it doesn't fit into the present category.

* * *

From a column position any direction the market takes from here should cause us little concern. Trouble is that the indications of the past few weeks are no longer clear cut. The reaction offshore a few weeks ago seems to have been dissipated somewhere along the line, though no rally signs have appeared to take its place.

* * *

Today there is almost a unanimity of expression among market seers that a reaction is in the wind. Some refer to it as "selective setbacks," others refer to the recent rise in television stocks as indicative of "top signs." Ordinarily I would agree with them. But the large company leads me to suspect that instead of a reaction worthy of the name we will likely go into a sustained resting period out of which stocks can again break out on the upside.

* * *

At this point I can trot out a series of arguments to sustain any position I care to. I can point to the removal of legal barriers that will make common stock purchases possible for a group which up to now was forced into bonds; I can mention that the repeated war scares are part of a major scheme to increase armament budgets that will help various companies and so benefit their stocks, etc., etc. On the other hand I can make out a series of arguments to prove the bubble is about to break and use the same cold war as the excuse.

* * *

All these, however, would be post facto excuses in which I have little faith. For you can rest assured that if I know them, so do others. The conclusion is: Stay out until the camouflage is dispelled. You may not make money that way, but neither will you lose any.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

ARVADA, COLO.—Raymond H. Shutts is with Waddell & Reed, Inc. of Kansas City.

Two With Robt. Bowers

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Thomas Lee Baskett and J. P. Buckingham have become connected with Robert D. Bowers & Co., Cooper Building.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available. Dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date:

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	April 30	100.3	100.0	96.7	97.5
Equivalent to—					
Steel ingots and castings (net tons)	April 30	1,912,000	1,906,300	1,843,400	1,797,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output — daily average (bbls. of 42 gallons each)	April 15	4,993,800	4,997,600	4,844,000	4,969,450
Crude runs to stills — daily average (bbls.)	April 15	§5,116,000	5,170,000	5,281,000	5,143,000
Gasoline output (bbls.)	April 15	16,820,000	17,792,000	17,936,000	16,919,000
Kerosene output (bbls.)	April 15	2,044,000	2,156,000	2,123,000	2,065,000
Gas, oil, and distillate fuel oil output (bbls.)	April 15	6,767,000	6,648,000	6,663,000	5,983,000
Residual fuel oil output (bbls.)	April 15	7,541,000	7,783,000	8,014,000	8,232,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	April 15	133,458,000	135,116,000	135,052,000	125,922,000
Kerosene (bbls.) at	April 15	12,636,000	12,784,000	13,592,000	18,187,000
Gas, oil, and distillate fuel oil (bbls.) at	April 15	37,499,000	38,288,000	43,102,000	49,169,000
Residual fuel oil (bbls.) at	April 15	39,831,000	40,434,000	41,966,000	59,440,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	April 15	707,272	700,129	725,570	765,943
Revenue freight received from connections (number of cars)	April 15	628,613	655,179	*671,004	623,423
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	April 20	$185,708,000	$177,569,000	$177,330,000	$107,322,000
Private construction	April 20	105,753,000	105,101,000	111,584,000	50,398,000
Public construction	April 20	79,955,000	72,468,000	65,746,000	56,924,000
State and municipal	April 20	67,800,000	57,698,000	49,363,000	51,125,000
Federal	April 20	12,155,000	14,770,000	16,383,000	5,799,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	April 15	11,330,000	*11,500,000	13,400,000	11,623,000
Pennsylvania anthracite (tons)	April 15	778,000	816,000	1,215,000	824,000
Beehive coke (tons)	April 15	111,700	98,400	55,500	136,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	April 15	255	*321	264	314
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	April 22	5,845,636	5,863,247	5,993,062	5,325,513
FAILURES (COMMERCIAL AND INDUSTRIAL) — DUN & BRADSTREET INC.	April 20	133	201	186	198
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	April 18	‡3.837c	3.837c	3.837c	3.749c
Pig iron (per gross ton)	April 18	$46.38	$46.38	$46.38	$46.59
Scrap steel (per gross ton)	April 18	$28.92	$28.83	$28.42	$22.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	April 19	19.200c	18.200c	18.200c	21.200c
Export refinery at	April 19	19.425c	18.425c	18.425c	21.425c
Straits tin (New York) at	April 19	77.000c	76.500c	76.000c	103.000c
Lead (New York) at	April 19	10.500c	10.500c	10.500c	15.000c
Lead (St. Louis) at	April 19	10.300c	10.300c	10.300c	14.800c
Zinc (East St. Louis) at	April 19	10.725c	10.500c	10.000c	13.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	April 25	102.75	102.85	103.19	101.65
Average corporate	April 25	116.22	116.41	116.22	113.12
Aaa	April 25	121.04	121.25	121.25	119.00
Aa	April 25	119.61	119.82	119.82	112.00
A	April 25	115.82	115.82	115.82	112.19
Baa	April 25	108.70	109.06	108.88	105.00
Railroad Group	April 25	111.44	111.81	111.62	108.16
Public Utilities Group	April 25	117.00	117.20	117.20	114.08
Industrials Group	April 25	120.42	120.22	120.22	117.40
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	April 25	2.29	2.29	2.26	2.38
Average corporate	April 25	2.84	2.83	2.84	3.00
Aaa	April 25	2.60	2.59	2.59	2.70
Aa	April 25	2.67	2.66	2.66	2.80
A	April 25	2.86	2.36	2.86	3.05
Baa	April 25	3.24	3.22	3.23	3.45
Railroad Group	April 25	3.09	3.07	3.08	3.27
Public Utilities Group	April 25	2.80	2.79	2.79	2.95
Industrials Group	April 25	2.64	2.64	2.64	2.78
MOODY'S COMMODITY INDEX	April 25	369.1	360.4	356.3	344.5
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	April 15	171,468	244,695	194,402	144,710
Production (tons)	April 15	193,925	210,848	205,932	165,853
Percentage of activity	April 15	88	93	92	80
Unfilled orders (tons) at	April 15	379,118	406,641	382,006	276,572
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	April 21	121.0	121.0	121.9	132.7
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	April 8	25,262	32,787	28,120	20,860
Number of shares	April 8	770,822	1,006,804	830,839	589,357
Dollar value	April 8	$30,239,610	$37,420,708	$29,257,020	$22,917,003
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	April 8	28,801	34,841	27,676	19,945
Customers' short sales	April 8	167	383	213	257
Customers' other sales	April 8	28,634	34,458	27,463	19,688
Number of shares—Customers' total sales	April 8	812,260	1,016,329	776,288	532,544
Customers' short sales	April 8	6,237	13,682	8,235	10,692
Customers' other sales	April 8	806,023	1,002,647	768,053	521,852
Dollar value	April 8	$28,677,102	$35,008,940	$28,150,205	$18,075,426
Round-lot sales by dealers—					
Number of shares—Total sales	April 8	261,850	345,560	258,730	159,140
Short sales	April 8	------	------	------	------
Other sales	April 8	261,850	345,560	258,730	159,140
Round-lot purchases by dealers—					
Number of shares	April 8	243,750	300,160	278,640	242,850
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR—1926=100:					
All commodities	April 18	152.2	152.1	151.7	156.6
Farm products	April 18	157.5	*157.9	157.4	171.4
Grains	April 18	169.6	170.1	164.6	163.2
Livestock	April 18	194.4	198.6	196.6	203.6
Foods	April 18	155.0	*155.0	155.2	162.2
Meats	April 18	212.2	*211.8	212.5	224.1
All commodities other than farm and foods	April 18	146.1	145.7	145.4	148.5
Textile products	April 18	135.6	135.6	136.2	141.8
Fuel and lighting materials	April 18	130.5	130.1	130.1	131.4
Metals and metal products	April 18	170.0	169.7	169.6	171.2
Building materials	April 18	193.8	193.1	192.9	136.2
Chemicals and allied products	April 18	117.2	117.5	116.5	117.8

*Revised figure. §Includes 431,000 barrels of foreign crude runs. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive.

	Latest Month	Previous Month	Year Ago
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of March (in thousands)	$115,738,000	$96,231,000	$109,741,000
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1949 = 100—As of Feb. 15:			
All items	166.5	166.9	169.0
All foods	194.3	196.0	199.7
Cereals and bakery products	169.0	169.0	170.0
Meats	221.6	219.4	221.4
Dairy products	183.6	184.2	192.5
Eggs	141.1	152.3	179.6
Fruits and vegetables	199.1	204.8	213.7
Beverages	304.5	299.5	209.0
Fats and oils	133.5	135.2	159.3
Sugar and sweets	178.0	178.9	174.3
Clothing	184.8	185.0	195.1
Rent	122.8	122.6	119.9
Fuel, electricity and refrigerators	140.3	140.0	138.3
Gas and electricity	97.1	96.7	96.1
Other fuels	193.2	193.1	192.6
Ice	145.5	145.5	140.0
Housefurnishings	185.3	184.7	195.5
Miscellaneous	155.1	155.1	154.1
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-1939 AVERAGE=100—Month of March:			
Sales (average monthly), unadjusted	221	165	*220
Sales (average daily), unadjusted	209	*183	*210
Sales (average daily), seasonally adjusted	217	*220	*223
Stocks, unadjusted as of Dec. 31	237	217	*240
Stocks seasonally adjusted as of Dec. 31	231	224	*234
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of February:			
Earnings—			
All manufacturing	$56.37	*$56.33	$54.25
Durable goods	59.43	*59.44	58.32
Nondurable goods	53.27	*52.82	50.01
Hours—			
All manufacturing	39.7	*39.7	39.4
Durable goods	40.1	*40.0	40.0
Nondurable goods	39.4	*39.3	38.8
Hourly earnings—			
All manufacturing	$1.420	*$1.419	$1.377
Durable goods	1.482	*1.486	1.458
Nondurable goods	1.352	*1.344	1.289
FAIRCHILD PUBLICATION RETAIL PRICE INDEX — 1935-39 = 100 (COPYRIGHTED AS OF APRIL 1):			
Composite index	137.1	137.0	140.0
Piece goods	127.2	127.2	135.5
Men's apparel	138.7	138.5	139.8
Women's apparel	130.6	130.1	133.4
Infants' and children's wear	129.3	129.3	130.4
Home furnishings	146.2	145.9	148.8
Piece goods—			
Rayons and silks	113.0	113.0	125.4
Woolens	138.2	138.2	140.3
Cotton wash goods	146.0	146.0	151.0
Domestics—			
Sheets	167.1	167.6	176.4
Blankets and comfortables	142.8	142.8	141.3
Women's apparel—			
Hosiery	102.5	102.5	106.0
Aprons and housedresses	141.9	141.8	143.7
Corsets and brassieres	130.8	130.8	132.4
Furs	133.1	134.2	145.1
Underwear	132.9	132.9	138.0
Shoes	140.5	140.5	140.8
Men's apparel—			
Hosiery	139.5	139.5	140.0
Underwear	151.9	151.8	154.7
Shirts and neckwear	129.5	129.5	130.0
Hats and caps	127.4	129.5	130.0
Clothing, including overalls	131.3	130.9	132.1
Shoes	168.2	168.0	169.0
Infants' and children's wear—			
Socks	130.4	130.4	131.5
Underwear	118.9	118.9	120.2
Shoes	143.7	143.6	144.6
Furniture	146.8	146.7	149.4
Floor coverings	159.2	157.4	157.9
Radios	117.9	117.8	120.4
Luggage	128.3	128.3	130.5
Electrical household appliances	133.7	138.7	143.2
China	133.1	133.1	136.2
GRAY IRON CASTINGS (DEPT. OF COMMERCE)—Month of February:			
Shipments (short tons)	864,189	913,321	986,591
For sale (short tons)	416,594	449,577	535,553
For producers' own use (short tons)	447,595	463,744	451,038
Unfilled orders for sale at end of month (short tons)	873,455	914,185	1,857,403
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of February:			
Shipments (short tons)	60,386	62,874	66,744
For sale (short tons)	31,249	32,918	35,074
For producers' own use (short tons)	29,137	29,956	31,670
Orders booked, less cancellation, for sale (short tons)	35,991	34,390	26,999
Unfilled orders, end of month, for sale (short tons)	67,049	62,307	118,318
NEW YORK STOCK EXCHANGE — As of March 31 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$1,018,337	$953,059	$550,366
Credit extended to customers	46,589	47,269	64,389
Cash on hand and in banks in U. S.	290,999	306,130	325,969
Total of customers' free credit balances	666,252	669,089	550,781
Market value of listed shares	79,482,749	78,638,810	67,517,768
Market value of listed bonds	125,846,076	127,777,276	132,064,687
Member borrowings on U. S. Govt. issues	112,995	87,576	177,836
Member borrowings on other collateral	609,536	554,966	218,505
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of March:			
Net sales	------	------	$1,750,000
Net purchases	$6,316,900	$13,481,200	------
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of March 31	$255,747,183	$256,395,406	$251,665,593
General fund balance	6,120,649	5,186,077	5,766,580
Net debt	$249,626,534	$251,209,329	$245,899,018
Computed annual rate	2.199%	2.204%	2.233%

*Revised figure.

Continued from page 3

The Business Outlook

business the same way. At least it requires many people to spend their time and energies producing parts for the war machine, instead of supplying usual peacetime consumer demands. I see no likelihood of a sudden reduction in armament demand. Quite the contrary!

A sharp increase in the birth-rate, such as we saw during the war, likewise makes for better business. That bumper crop of war babies is still creating demands for food, clothing, schools, transportation and medical services without as yet adding to our supply of goods and services. What we may call "net demand" from that source will increase for several years yet, in the normal course of events. By net demand I mean the excess of demand over supply from the same people.

Some other factors which tend to increase the demand for goods relative to the supply include inventory upbuilding, increases in instalment buying, unrequited exports and deficit financing. If a manufacturer of washing machines, for example, resumes operation after a war, and has to make 100,000 washing machines to stock his dealers before any are available for sale at retail, obviously he must buy a good deal of materials and pay a great deal in wages without immediately adding to the supply of goods and services on which those wages might be spent. The result, of course, is increased competition for the goods and services that are available. We have just been through such a period. It seems unlikely that business will be greatly stimulated by further inventory upbuilding as far ahead as we can see now.

An excess of our exports over our imports works the same way. Someone is paid for materials and labor but the supply of goods and services on the market in this country is not correspondingly increased. The outlook is for a further reduction in our huge excess of exports over imports as the Marshall Plan draws to an end, but shipments of arms to Western Europe will cushion the decline.

Instalment Buying

Instalment buying works a little differently, but the effect is the same. If your salary is $6,000 a year, and if you spend that, and then buy $2,000 worth of automobiles, television sets and miscellaneous household equipment on the instalment plan, you make yourself an $8,000 market for that year. You may continue to be an $8,000 market for several years by continuing to add to your indebtedness, but eventually all good things come to an end. When you stop increasing your indebtedness you drop back to being a $6,000 market, and when you begin to repay your indebtedness you may drop back to being a $5,000 a year market, or even a $4,000 a year market if you repay your debts that fast. Our record high total of this type of debt makes business vulnerable to a sudden loss of confidence, but otherwise there seems to be room for considerable further expansion.

Spending your savings works the same way though the effect on the economy as a whole is not quite as stimulating as when you get the extra money by borrowing at a bank. Not quite, but almost, so long as the government continues to support its bond market. And while our national savings are not evenly distributed, their unprecedented size argues that business will be about as good as our salesmen for a long time to come.

New construction of all kinds tends to increase the demand for goods and services relative to the supply because materials are used and workmen are paid but no additional supply of consumer goods is created immediately. The stimulating effect of new construction on general business is particularly strong when the work is financed with borrowed money, as so much of our home building has been. A vast amount of needed public construction work, such as roads, schools and hospitals, is yet to be done. For the rest, all I can say is, "Watch it closely!"

In general, when peoples or governments spend more than their incomes the tendency is to increase the demand for goods relative to the supply, and vice versa. Since banks ordinarily invest in evidences of debt, it is no accident that periods of good business correspond rather closely with periods of rising loans and investments, taking the country as a whole. Renewal of Federal deficit financing will tend to boost them again.

Already we have had one example, since the end of the war, of how some factors tending to increase demand relative to supply can offset others tending in the opposite direction. The drop in the Federal deficit from its wartime peak was met by a sharp rise in inventories, by increases of many billions of dollars in instalment credit and mortgage indebtedness and by a huge excess of exports over imports, to cite just a few of counterbalancing factors.

The Government's Misguided Predictions

Attempts to predict whether and when all of us, as individuals and as a nation, will start living within our current incomes, and begin paying off our debts, are as dangerous today as they ever were. The government started a train of misguided predictions of impending depression with its forecast of millions of unemployed in the first year after the war. Others in private industry joined with enthusiasm in the game of attempting to call the turn. In the fall of 1946 a slump in the first half of 1947 was confidently predicted. Then it was postponed to the fall, to the spring of 1948, again to the fall, and finally hailed as having arrived in the spring of 1949. The next depression seems to be just around that same corner where prosperity hid from President Hoover.

Credit of potential borrowers as a whole still is such as to permit them to continue spending beyond their current incomes for a long time if they want to do so. Take the farmers as perhaps the most striking example. Back in the early nineteen thirties his mortgage debt was roundly ten billion dollars, or roughly two and a half times our then national agricultural income. Now the farmer's mortgage debt is down to about half what it was, while his annual income is something like seven times what it was. His total assets have nearly trebled. Liquid savings for the country as a whole are at record high levels. Individuals own about $130,000,000,000 government securities, savings and checking accounts and savings and loan shares, plus twenty billion dollars in currency and some fifty billion dollars in net funds behind their life insurance policies. This year more than a billion dollars of Savings Bonds mature. By 1952 maturities will be at the annual rate of nearly four billion dollars, and by 1954, the peak year, maturities will come close to nine billion dollars.

As for deficit financing Federal government expenditures have exceeded receipts in all but two of the last 19 years, and the Congressional staff of fiscal experts predicted this week that Federal deficits in the 1950 and 1951 fiscal years would aggregate fourteen billion dollars. On balance, the *figures* seem to me to add up to good business for quite a while *longer*.

Too Many Figures

It seems to me sometimes that economists tend to rely too much on figures. Such data can be statistical trees that keep us from seeing the economic forest. There are some problems we can't solve mathematically, as the unpopular governor of an unnamed state discovered recently. He was returning to his capital by plane when he was struck by the idea of tossing out a ten dollar bill "to make someone happy." "Throw out two fives and make two people happy," suggested his practical wife. "Throw out ten ones and make ten people happy," urged the stewardess. "Throw yourself out and make everybody happy," growled the co-pilot.

Two Clouds

To my mind two important clouds over the business outlook are these:

(1) The unwillingness of our people to snap out of the dream world of inflation in which they have sought escape from reality since 1932.

(2) Our loss of faith in the competitive enterprise system, with the resulting tendency to substitute governmental controls for the incentives and curbs of fluctuating prices.

Many of us still profess to believe in capitalism, of course. We make some fine speeches about it. But more and more we try to prevent the system from working whenever competition threatens to hurt any sizable number of voters. We have not yet gone as far in this direction as Great Britain where the government lion has lain down with the private enterprise lamb inside him, but we are far along a perilous course.

As a boy in Minnesota I learned the law of action and reaction by shooting at a hawk while leaning against a tree. Something had to give way. The tree would not, so my shoulder did. In our economy now, we assume that interest rates must not be allowed to go up. Wages must not be allowed to go down. Unemployment must not be allowed to go up. Prices of farm products must not be allowed to go down. Natural gas prices must not be allowed to go up "too much." Taxes must not be allowed to go down. There, too, something must give way.

As you all know, the price system is supposed to work by encouraging, through higher prices, increased production and reduced consumption of those goods which are in short supply. Similarly it induces, through lower prices, curtailment of production and increased consumption of goods in oversupply. Inevitably that hurts, just as it hurts to pull a bad tooth. But unless we let the system operate we are going to waste more and more millions of man-hours in producing goods which nobody wants while we ration or price-fix other goods in short supply. Some of us who really believe in competitive enterprise would even argue that left alone that system would have deflected more of our national energies into home-building and less into raising eggs and potatoes than our system of price supports for commodities of which we had too much, and rent-ceilings for housing of which we had too little. And all at a big saving to the Federal Government!

The waste of manpower occurs not alone in the production of goods nobody wants, but in the preservation of inefficient, high cost producers at the expense of all consumers. Facing as we do a numerically superior enemy for the first time in our history as a nation, we simply can't afford to use two men to do what one should be able to do. No. I'm not forgetting that we have a few million unemployed. I'm remembering that the first unemployment came when primitive man found enough to eat before dark. The uses he made of his spare time, then and subsequently, produced civilization. If we have now become so sterile of new ideas that we can think of no way to use our national "spare time" except by subsidizing surpluses and subdividing shortages, some people with more imagination will presently take over. My hope and expectation is that our commonsense will come to our rescue as our international situation becomes more threatening.

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The Public's Attitude Toward Business and Why

terests of the country, of the workers, and of the American people are thrust aside for selfish reasons, as is happening at present in the Chrysler case. Here is a sad example of destroying production, loss of wages to hundreds of thousands of workers, and discouragemetn of a great job-making organization whose influence in the last war had much to do with the victory of our boys, who were equipped with the instruments of war pouring out night and day from that great plant which now has lain idle for more than 80 days.

Yet public opinion about these issues and about the importance of protecting the job-making function is our land is so feeble and so uncertain that the strife goes on and on and on, even though fair offers of settlement have been made.

There could be nothing which would more greatly please those who do not wish us well than to see, one by one, our great production teams of labor and management involved in destructive domestic strife.

We need to develop a better-informed citizenry, to the end that they may understand the need for cooperation to protect and expand good jobs for all those who wish to work, and that these should come from private industry, and not from government programs of relief or made work, which are extremely costly and create no lasting progress.

What we need today in this country is an all-American policy which will be fair to all our citizens and shows no favors to any pressure group, but works for the benefit of the nation as a whole. That cannot be effectuated as long as the public remains so poorly informed about business.

For example, in a recent poll 52% of those questioned said that most of the profits of big business go into the pockets of the big bankers and financiers of Wall Street; there was a similar fallacy current to the effect that 2% of the people own 80% of the wealth. Businessmen have neglected to correct such misstatements.

How shall we go about giving the American people a correct understanding about what makes their jobs and what helps to protect their jobs and licks unemployment? Well, I believe business will have to do it, for no other agency will do it for us.

These 60 million employees of our economy can be told the truth by their own employers, provided the employers themselves clearly understand what needs to be told and knows how to tell it so that the average man can grasp it. We can certainly learn a lot from the type of literature and other publicity presented by the big unions of this country, particularly the CIO, whose booklets, movies and other material are well designed to accomplish their purposes. Unfortunately much of it is aimed in the wrong direction and does nothing to help bring about that American unity so vitally needed. In fact, a great deal of it has the opposite effect and creates discord.

A second way in which business must help to develop an informed public opinion about itself is for businessmen to take a more active part in discussion groups of every kind, to correct the vast amount of misinformation which is being spread today, some of which sounds extremely plausible. Here again we shall lose by default if we expect someone else to do it for us. This involves participation not only in neighborhood groups, but also public debate and even letters to public officials, to editors, and to the employees themselves.

America and Industrial Strength

We are an industrial nation, and our strength lies in the soundness and continued growth of our industry. Without this strength America cannot expect to do her part in the solution of domestic problems or of world problems, and particularly in connection with those great problems upon which the peace of the entire world may well depend.

Good jobs are the cornerstone of our economic structure. The public must be told the truth about what makes and sustains these jobs, and what hurts them as well. Businessmen cannot avoid the role of job-makers. Many progressive companies are setting good examples in creating new jobs and in diversifying their production to provide steady jobs the year round. Government should be the helping agency to encourage both management and labor, and not the creator of artificial jobs merely to correct the situation caused by unemployment.

Labor has to recognize that its program must be greatly modernized to fit the present situation, in order to help in the creation of more jobs, by lifting some of the restrictions which are so greatly handicapping production today.

Recently someone said to me, "A well-informed people will never choose Socialism. An uninformed people may be scared into it without even knowing what's happening to them." I believe that is true.

It is the responsibility of business to develop a well-informed public opinion on the very important subject of jobs and job-making. If the American people know the truth and are aware of the facts of the situation, we can trust them to help develop an all-American policy and strength which will bring us safely out of these troublous times. That is the only way which will make it possible for us to carry out the great role the world looks to us to play in its affairs, and I hope we shall all do our share to help bring it about.

Will Ward Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Will Ward is engaging in the investment business from offices at 5723 West Sixth Street. In the past he was associated with Loomis, Sayles & Co., Inc.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

American Cladmetals Co. (5/10-15)
March 31 filed 480,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—Graham & Co., Pittsburgh and New York. **Proceeds**—To install additional facilities and for working capital. Expected between May 10 and 15.

● **American Cyanamid Co., New York**
April 26 filed an unspecified number of shares of series B cumulative preferred stock (par $100), which is convertible before July 1, 1960. They are to be offered to common stockholders at the rate of one preferred share for each seven common held. **Underwriter**—White, Weld & Co. **Price**—To be filed by amendment, along with dividend rate. **Proceeds**—For working capital and general funds.

American Gas & Electric Co. (5/1)
March 31 filed $27,000,000 of serial notes, due serially between 1952 and 1965 inclusive. **Underwriter**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Salomon Bros. & Hutzler; First Boston Corp.; Harriman Ripley & Co., Inc. **Proceeds** — To redeem $15,162,300 outstanding 4¾% cumulative preferred stock at $110 a share, to pay $10,300,000 of 2% serial bank loan notes and the balance, if any, added to treasury funds. **Bids**—To be received up to noon (EDT) on May 1 at company's office, 30 Church St., New York, N. Y.

American Investment Co. of Illinois
March 27 filed 31,892 shares of common stock (par $1) being offered to employees. **Underwriter**—None. **Price**—$15 per share. **Proceeds**—For general corporate purposes.

● **American Oil & Gas Co.**
April 20 (letter of notification) 175 pre-organization certificates at $100 each. No underwriter. Proceeds for benefit of company. **Office**—c/o W. E. Cabeen, 6140 Bryan Parkway, Dallas, Tex.

Ampal-American Palestine Trading Corp.
April 10 filed $3,000,000 of 10-year 3% sinking fund debentures. **Underwriter** — Israel Securities Corp., New York. **Proceeds**—To increase working capital to be used for enterprises in Israel. **Business**—Developing the economic resources of Israel.

Armstrong Rubber Co., West Haven, Conn.
March 10 (letter of notification) 1,200 shares of class A no par value common stock to be sold at $14 per share by James A. Walsh, President. **Underwriter**—F. Eberstadt & Co., Inc., New York.

Armstrong Rubber Co., West Haven, Conn.
March 8 (letter of notification) 1,000 shares of 4¾% cumulative convertible preferred stock and 3,000 shares of class A no par value common stock, to be sold at $40 and $14 per share, respectively, by Frederick Machlin, Executive Vice-President of the company. **Underwriter**—F. Eberstadt & Co., Inc., New York City.

● **Atlas Corp.**
April 26 filed 100,000 shares of common stock and option warrants to purchase a like amount of common stock at $25 per share, without limit as to time. These shares and option warrants are now outstanding and constitute a part of the holdings of George H. Howard. **Underwriters** — Goldman, Sachs & Co. and Lehman Brothers are named as managers. The registration statement also covered 1,924,011 shares of common stock which would be issuable by the corporation if all the outstanding option warrants were exercised.

Atlas Powder Co., Wilmington, Del.
April 7 (letter of notification) 6,000 shares of common stock (no par) at $50 per share. No underwriter. Proceeds for working capital.

● **Baldwin Co., Cincinnati, Ohio**
April 19 (letter of notification) 1,001 shares of common capital stock (par $8), to be sold at the market price (estimated to be $17 per share), for the account of a selling stockholder. **Underwriter**—W. D. Gradison & Co., Cincinnati.

Brooklyn Union Gas Co., Brooklyn, N. Y.
April 13 filed $8,000,000 of first mortgage bonds due 1980. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. and F. S. Moseley & Co. (jointly); Kuhn, Loeb & Co. and Lazard Freres & Co. (jointly); Harriman Ripley & Co., Inc. and First Boston Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers. **Proceeds**—To repay bank loans and for construction program.

Brooklyn Union Gas Co. (5/4)
April 13 filed 186,341 shares of cumulative convertible preferred stock (par $40). To be offered initially to common stockholders of record May 4, 1950 at the rate of one preferred share for each four common shares then held. Rights expire May 19. **Underwriters**—Blyth & Co., Inc. and F. S. Moseley & Co. **Price**—To be supplied by amendment. **Proceeds**—To repay bank loans and for construction program.

Buffelen Manufacturing Co., San Francisco
April 10 (letter of notification) 2,000 shares of 5½% cumulative preferred stock (par $100) and 2,000 shares of common stock (no par), in units of one share of preferred and one common for $150 per unit. Proceeds for working capital. May be placed privately. **Office**—58 Sutter St., San Francisco, Calif.

● **C. I. C. of Oregon, Inc., Portland, Ore.**
April 19 (letter of notification) 60,000 shares of common stock to be offered at par ($1 per share). No underwriter. Proceeds for working capital and purchase of equipment. Office—704 Guardian Bldg., Portland, Ore.

● **California Pacific Utilities Co.**
April 19 (letter of notification) 9,300 shares of common stock (par $20). **Price**—$32 per share. **Underwriter**—First California Co., San Francisco. **Proceeds**—For expansion.

Canadian Admiral Corp., Ltd., Malton, Ont., Canada
March 30 filed 28,458 shares of $1 par value common stock being offered to shareholders at the rate of one-half share for each share held. **Underwriter**—None. **Price**—$5 per share. **Proceeds**—To purchase plant site, erect and equip plant, and for working capital. **Business**—Manufacture and distribution of radios, television sets and electric home appliances. Statement effective April 21.

Canam Mining Corp., Ltd., Vancouver, B. C.
Aug. 29 filed 1,000,000 shares of no par value common stock. **Price**—800,000 shares to be offered publicly at 80 cents per share; the remainder are registered as "bonus shares." **Underwriter**—Reported negotiating with new underwriter. **Proceeds**—To develop mineral resources. Statement effective Dec. 9. Indefinite.

Capper Publications, Inc.
March 20 filed $2,000,000 of series 6 five-year first mortgage 4% bonds and $2,000,000 of series 7 10-year first mortgage 5% bonds. **Price**—At par, in denominations of $100, $500 and $1,000. **Underwriter**—None. **Proceeds**—To redeem outstanding bonds and improve facilities. **Office**—Eighth and Jackson Streets, Topeka, Kan.

Central Airlines, Inc.
March 28 (letter of notification) 1,500 shares of 5% cumulative non-convertible preferred stock (par $100) and 3,000 shares of class B non-voting common stock (par $1). **Price**—At par. **Underwriter**—None. **Proceeds**—To retire indebtedness and for operations. **Office** — 6109 Camp Bowie Blvd., Fort Worth, Tex.

Central Vermont Public Service Corp. (5/3)
March 30 filed $2,000,000 of series F first mortgage bonds, due 1980, and 8,000 shares of $100 par value preferred stock. **Underwriter**—To be determined by competitive bidding for the bonds; to be filed by amendment for the preferred stock. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Coffin & Burr, Inc.; Kidder, Peabody & Co. Traditional underwriter for stock, Coffin & Burr, Inc. **Proceeds**—For construction and payment of bank loans. **Bids**—For bonds to be received by company at Room 166, Parker House, Boston, Mass., up to 11 a.m. (EDT) on May 3, and for preferred stock up to 11:30 a.m. the same date. Statement effective April 21.

Chemical Crops, Inc., Morrill, Neb.
March 20 (letter of notification) 170,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—Robert D. Bowers Co., Denver, Colo. **Proceeds**—To build oil seed processing plant.

(The) Chicago Fair, Chicago, Ill.
March 24 filed $1,000,000 of subordinated debentures, due 1960. **Underwriter**—None. **Price**—At par. **Proceeds**—For construction, alterations and general administrative expenses. **Business**—To hold an exposition in Chicago. Statement effective April 10.

● **Columbia Mining Co., Helena, Mont.**
April 14 (letter of notification) 40,000 shares of common stock to be offered at par ($1 per share). No underwriter. Proceeds to develop leased mines.

● **Curtiss-King Corp., Elizabeth, N. J.**
April 10 (letter of notification) not to exceed 3,000 shares of 7% preferred stock to be offered at par ($100 per share). No underwriter. Proceeds for working capital. **Office**—57 Broad St., Elizabeth, N. J.

● **Dallas Power & Light Co.**
April 19 (letter of notification) 3,724 shares of common stock (no par) to be offered to public stockholders at rate of one-eighth additional share for each common share held. **Price**—$80 per share. **Underwriter**—None. **Proceeds**—For construction.

● **Dayton Power & Light Co. (5/10)**
April 20 filed 283,333 shares of common stock (par $7) to be offered to holders of outstanding common about May 10 at the rate of one new share for each seven held; rights to expire about May 31. **Underwriter**—Morgan Stanley & Co. and W. E. Hutton & Co., New York. **Price**—To be filed by amendment. **Proceeds**—To repay bank loans and for construction.

(The) Dean Co., Chicago
April 10 (letter of notification) 1,000 shares of common stock. **Price**—At par ($10 per share. **Underwriter**—Boettcher & Co., Denver and Chicago. **Proceeds**—For general corporate purposes.

Dome Exploration (Western) Ltd., Toronto, Canada
Jan. 30 filed $10,000,000 of notes, due 1960, with interest at 1% in the first year, 2% in the second year, and 3% thereafter, and 249,993 shares of capital stock (par $1). To be sold to 17 subscribers (including certain partners of Carl M. Loeb, Rhoades & Co., State Street Investment Corp. and State Street Research & Management Co.) **Underwriter**—None. **Proceeds**—For general funds. **Business**—To develop oil and natural gas properties in Western Canada.

Eastern Corp., Bangor, Me.
April 3 (letter of notification) 2,500 shares of common stock (par $10) to be offered at the market price (about $14.625 each) by the Central National Corp., New York City. No underwriter.

● **Edgcomb Steel Co., Philadelphia, Pa.**
April 21 (letter of notification) 3,474 shares of common stock (par $10) to be offered to employees. **Price**—$15 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—"D" Street, Philadelphia, Pa.

El Paso Natural Gas Co., El Paso, Tex.
March 27 filed 65,000 shares of $4.25 conv. second preferred stock, series of 1950, no par value, being offered to common stockholders at the rate of one preferred share for an unspecified number of common shares held on April 13; rights will expire April 28. **Underwriter**—White, Weld & Co., New York. **Price**—$102 per share. **Proceeds**—To pay for construction of new San Juan pipe line.

● **Empire Laundry, Inc., Washington, D. C.**
April 18 (letter of notification) 7,060 shares of class A common stock (par $25) and 1,188 shares of class B common stock (no par). **Price**—For class A $25 per share and class B $100 per share. **Underwriter**—None. **Proceeds**—To pay incorporators and employees, indebtedness, for equipment and plant expansion and working capital. **Office**—4628 Minnesota Avenue, N. E., Washington, D. C.

● **Fleetwood Airflow, Inc., Wilkes-Barre, Pa.**
April 20 (letter of notification) 107,050 shares of common stock (par 50 cents). **Price**—$1 per share. **Underwriter** — None. **Proceeds** — From $79,050 for working capital, remaining $28,000 being offered to six creditors in payment of debt. **Office**—421 No. Pennsylvania Ave., Wilkes-Barre, Pa.

● **General Fuse Co., South River, N. J.**
April 19 (letter of notification) 51,000 shares of common stock, of which 18,400 shares are to be issued at 50 cents per share and 32,600 shares at 65 cents per share. No underwriter. Proceeds for expansion and working capital. **Office**—Robert Street, South River, N. J.

General Steel Products Corp., Reno, Nev.
April 6 (letter of notification) 150,000 shares of non-assessable capital stock at $1 per share. No underwriter. Proceeds to build a plant and office at Las Vegas, Nev. **Office**—15 W. 2nd St., P. O. Box 1291, Reno Nev.

● **General Waterworks Corp. (4/28)**
April 20 (letter of notification) 3,000 shares of 5.1% cumulative preferred stock. **Price**—At par ($100 per share). **Underwriters**—Butcher & Sherrerd; Hill, Crawford & Lanford, Inc.; Southern Securities Corp.; Singer, Deane & Scribner; Minot, Kendall & Co., Inc.; Herman Bensdorf & Co.; M. M. Freeman & Co., Inc.; Glover & McGregor, Inc. **Proceeds**—To acquire additional common stock of Boise Water Corp.

Glatfelter (P. H.) Co.
March 31 filed 20,000 shares of 4½% cumulative preferred stock (par $50) and 70,000 shares of common stock (par $10) being offered to holders of 20,000 shares of outstanding 5% cumulative first preferred stock (par $100) in exchange for their holdings, at the rate of one new share of preferred and 3½ shares of common for each share surrendered. The offer expires May 1. **Underwriters**—Union Securities Corp., New York, and Stroud & Co., Inc., Philadelphia. **Price**—$50 and $15 per share respectively. **Proceeds**—To redeem the 5% preferred not surrendered in the exchange.

Gold Shore Mines, Ltd., Winnipeg, Canada
April 10 filed 500,000 shares of common stock (par $1). **Underwriter** — None. **Price**—$1.50 per share. **Proceeds**—For buildings, equipment and working capital.

Grant (W. T.) Co., New York City
April 3 filed 118,935 shares of common stock (par $5). No underwriter. These shares will be sold to employees from time to time under terms of an Employees Stock Purchase Plan to be voted on April 18. **Proceeds**—To be added to general funds for corporate purposes. **Price**—Not less than $22 a share.

Granville Mines Corp., Ltd., British Columbia, Canada
Feb. 16 filed 100,000 shares of common non-assessable stock (par 50c). **Price**—35c per share. **Underwriter**—None. **Proceeds**—To buy mining machinery and for working capital.

Gulf Atlantic Transportation Co., Jacksonville, Florida
May 27, 1949, filed 620,000 shares of class A partic. ($1 par) stock and 270,000 shares (25c par) common stock. **Offering**—135,000 shares of common will be offered for subscription by holders on the basis of one-for-two at 25 cents per share. **Underwriters**—Names by amendment and may include Blair, Rollins & Co., Inc.; John J. Bergen & Co. and A. M. Kidder & Co. on a "best efforts basis." **Price**—Par for common $5 for class A. **Proceeds**—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations, and to provide working capital.

Hammond Instrument Co., Chicago, Ill.
March 13 (letter of notification) 2,000 shares of common stock (par $1). **Price**—$20 per share. **Underwriter**—Paul H. Davis & Co. of Chicago.

● **Hedstrom Union Co., Fitchburg, Mass.**
April 21 (letter of notification) 1,000 shares of class A preferred stock (no par). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—To build a new warehouse at the company's plant in Dotham, Ala. **Office**—Oak Hill Road, Fitchburg, Mass.

● **Holiday Brands, Inc., Boston, Mass.**
April 26 filed 600,000 shares of class A convertible capital stock (par $100). **Underwriters**—Shields & Co., New York, and Clayton Securities Corp., Boston. **Price**—To be filed by amendment. **Proceeds**—To build and equip plant and for working capital. **Business**—To manufacture and sell soluble crystalline coffee.

● **Household Finance Corp., Chicago**
April 25 filed 100,000 shares of 4% preferred stock (par $100). **Price**—To be filed by amendment. **Underwriters**—Kidder, Peabody & Co., Lee Higginson Corp. and William Blair & Co. **Proceeds**—For additional working capital.

● **Household Service, Inc., Clinton, N. Y.**
April 18 (letter of notification) $150,000 of first mortgage bonds due May 1, 1965, of which $111,000 principal amount are to be offered in exchange for a like amount of 5% sinking fund 10-year serial debentures, series A, B and C, due respectively in 1956, 1957 and 1958. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Price**—Unexchanged bonds to be offered at par. **Proceeds**—To retire debentures, to pay off mortgage and debt, and for expansion.

Idaho Power Co. (5/1)
April 3 filed 20,000 shares of 4% preferred stock. **Underwriter** — Wegener & Daly Corp., Boise. **Price**—At par ($100 per share). **Proceeds**—To expand production, transmission and distribution facilities. Expected to be issued on or after May 1, 1950.

● **Interstate Power Co. (5/23)**
April 19 filed $3,000,000 of first mortgage bonds, due 1980; $275,000 shares of common stock (par $3.50); and 100,000 shares of preferred stock (par $50). **Underwriter**—For bonds and common to be decided by competitive bidding; preferred to be sold publicly or privately through a negotiated sale. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); and Smith, Barney & Co. (for bonds and common); Halsey, Stuart & Co. Inc. and The First Boston Corp. (for bonds); Harriman Ripley & Co. Inc. (for common). Probable underwriting for preferred may include: Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane; Smith, Barney & Co.; Kidder, Peabody & Co., or Lehman Brothers. **Proceeds**—To pay $2,400,000 of 3% notes and $5,000,000 of first mortgage 4½% bonds, due 1978, and for new construction. Bids are to be invited on bonds and common about May 23.

Iowa Public Service Co. (5/22)
Feb. 21 filed 50,000 shares of cumulative preferred stock (par $100). **Underwriter**—To be determined by competitive bidding. Probable bidders: A. C. Allyn & Co.; Harriman Ripley & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kidder, Peabody & Co. and Blyth & Co. (jointly); Equitable Securities Corp.; Lehman Brothers; White, Weld & Co. **Proceeds**—For payment of bank loans and for construction. Expected May 22.

● **Jefferson Custodian Fund, Inc., N. Y. City**
April 26 filed 100,000 shares of capital stock (par $1). **Underwriter**—Frank M. Cryan Co., Inc., New York. **Business**—Investment firm.

● **Kentucky Oil & Distributing Corp.**
April 18 (letter of notification) 16,500 shares of capital stock to be offered at par (10 cents per share). These shares are to be sold to four individuals in New York and New Jersey. No underwriter. Proceeds for additional working capital. **Office**—Monticello, Ky.

Kern Mutual Telephone Co., Taft, Calif.
March 31 (letter of notification) 15,000 shares of common stock offered pro rata to stockholders of record about April 10 at $10 per share; unsubscribed shares to be publicly offered at $10.50 per share. **Underwriter**—Bailey & Davidson, San Francisco Calif. **Proceeds**—To retire $33,000 of outstanding debentures and pay for construction.

NEW ISSUE CALENDAR

April 28, 1950
General Waterworks Corp. — Preferred

May 1, 1950
American Gas & Electric Co., noon (EDT) — Notes
Idaho Power Co. — Preferred
New Dictatype Co., Inc. — Common
Video Corp. of America — Common

May 2, 1950
Public Service Electric & Gas Co. 11 a.m. (EDT) — Bonds
Spencer Chemical Co. — Common

May 3, 1950
Central Vermont Public Service Corp. 11 a.m. (EDT) — Bonds
Central Vermont Public Service Corp. 11:30 a.m. (EDT) — Preferred

May 4, 1950
Brooklyn Union Gas Co. — Preferred

May 9, 1950
Denver & Rio Grande Western RR. Noon (EDT) — Equip. Trust Ctfs.
Knott Hotels Corp. — Common
Potomac Electric Power Co. — Bonds & Stock

May 10, 1950
American Cladmetals Co. — Common
Dayton Power & Light Co. — Common
Seaboard Air Line RR., noon (EDT) — Bonds
White's Auto Stores, Inc. — Preferred & Com.

May 11, 1950
Chicago, Rock Island & Pacific RR. Noon (CDT) — Equip. Trust Ctfs.

May 15, 1950
Oklahoma Gas & Electric Co. — Bonds

May 16, 1950
Maine Public Service Co. — Preferred
Ohio Edison Co., 11:30 a.m. (EDT) — Bonds

May 18, 1950
Pittsburgh & Lake Erie RR. — Equip. Trust Ctfs.

May 22, 1950
Iowa Public Service Co. — Preferred

May 23, 1950
California Electric Power Co. — Common
Interstate Power Co. — Bonds & Common

May 24, 1950
Wabash RR. — Equip. Trust Ctfs.

June 1, 1950
New York Central RR. — Equip. Trust Ctfs.

June 7, 1950
California Electric Power Co. — Bonds

● **Kingston Products Corp., Indianapolis, Ind.**
April 20 (letter of notification) 11,000 shares of common stock to be offered at the market price for account of two selling stockholders. **Underwriter**—Hemphill, Noyes & Co. **Price**—About $7 and $8 per share.

Knott Hotels Corp., N. Y. City (5/9-10)
April 17 filed 130,000 shares of common stock (par $5), of which 100,000 will be sold by the company and 30,000 by Agnes G. and William J. Knott. **Underwriter**—Hayden, Stone & Co., New York City. **Price**—To be filed by amendment. **Proceeds**—For additional facilities, including a laundry plant. Expected May 9 or 10.

● **Leadville Lead Co., Denver, Colo.**
April 20 (letter of notification) 100,000 shares of common stock at $1.50 per share. No underwriter. Proceeds for indebtedness, property options and drilling. **Office**—508 Kittredge Building, Denver, Colo.

● **Lincoln (Neb.) Housing, Inc.**
April 17 (letter of notification) 500 shares of common stock (par $100) to be sold at par. No underwriter. Proceeds to construct rental housing. **Office**—229 S. 13th Street, Lincoln, Neb.

Lytton (Henry C.) & Co., Chicago, Ill.
March 1 (letter of notification) 7,000 shares of common stock (par $1). **Price**—$8 per share. **Underwriter**—Straus & Blosser, Chicago, Ill. **Proceeds**—To two selling stockholders.

● **Maine Public Service Co. (5/16)**
April 24 filed 30,000 shares of 5½% cumulative preferred stock ($20 par). **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane and seven others. **Price**—To be filed by amendments. **Proceeds**—For construction. Expected May 16.

● **Messenger Corp., Auburn, Ind.**
April 17 (letter of notification) 6,000 shares of common stock (par $1). **Price**—$11.50 per share. **Underwriter**—The First Trust Co. of Lincoln, Neb. **Proceeds**—To selling stockholders.

Middlesex Water Co., Newark, N. J.
Feb. 9 (letter of notification) 5,200 shares of common stock offered to common stockholders of record March 17 at $50 per share on a one-for-five basis. **Underwriter**—Clark, Dodge & Co. **Proceeds**—To pay notes and for additional working capital. Expected this month.

Miller (Walter R.) Co., Inc.
March 6 (letter of notification) 1,000 shares of 6% cumulative preferred stock at par ($100 per share). **Underwriter**—George D. B. Bonbright & Co., Binghamton, N. Y. **Proceeds**—To assist in acquisition of 1216 shares of company's common stock.

Mountain States Telephone & Telegraph Co.
March 10 filed 183,918 shares of capital stock offered to stockholders of record March 27 at the rate of one for each five shares; rights are to expire April 28. **Underwriter**—None. **Price**—At par ($100 per share). **Proceeds**—To pay indebtedness to its parent, American Telephone & Telegraph Co., and for corporate purposes, including construction. Statement effective March 27.

Muntz TV Inc., Chicago
April 17 filed 400,000 shares of common stock (par $1). **Underwriter**—Kebbon, McCormick & Co., Chicago. **Price**—To be filed by amendment. **Proceeds**—For working capital. **Business**—Distribution of television sets.

National Plumbing Stores Corp.
April 12 (letter of notification) $180,500 15-year 3½% income notes due Feb. 1, 1965. **Price**—At 100% of par value. **Underwriter**—None. **Proceeds**—For general corporate purposes. **Office**—75 Cliff Street, New York, N. Y.

New Dictatype Co., Inc., Wilmington, Del. (5/1)
April 13 (letter of notification) 25,000 shares of common stock at $3.50 per share. No underwriter. Proceeds to manufacture and sell the dictatype machine and its accessories. **Office**—100 S. King Street, Wilmington, Del.

New England Gas & Electric Association
April 17 filed 138,800 common shares of beneficial interest—($8 par value), to be offered to present stockholders at rate of one new share for each 10 held. **Dealer Managers**—A. C. Allyn & Co.; Townsend, Dabney & Tyson; Wagenseller & Durst; G. H. Walker & Co.; Draper, Sears & Co.; C. L. Putnam & Co.; Smith, Ramsey & Co. **Price**—To be filed by amendment. **Proceeds**—To pay bank loans and for further common stock investments in subsidiaries.

New York State Electric & Gas Corp.
April 6 filed 272,380 shares of common stock (no par) to be offered to common stockholders of record April 27 at the rate of one new share for each seven held; rights will expire May 12. **Underwriters**—First Boston Corp.; Lehman Brothers; Wertheim & Co.; and Merrill Lynch, Pierce, Fenner & Beane; all of New York. **Price**—To be filed by amendment. **Proceeds**—For construction.

Norlina Oil Development Co., Washington, D. C.
March 28 filed 600 shares of capital stock (no par.) To offer only sufficient shares to raise $1,000,000 at $5,000 per share. No underwriter. Proceeds to be used to explore and develop oil and mineral leases.

North Western Coal & Oil Ltd., Calgary, Alta., Canada
April 6 filed 2,200 basic units of $250 face amount each of production trust certificates, or an aggregate principal amount of $550,000, Canadian funds. **Underwriter**—Israel and Co., New York City. **Price**—$123.75 (U. S. funds) per $250 unit. **Proceeds**—For equipment, working capital and current liabilities.

Northern Natural Gas Co.
April 13 filed 304,500 shares of common stock (par $10), to be offered to common stockholders of record May 3 on the basis of one new share for each eight shares held; rights to expire May 22. Unsubscribed shares to be offered to employees of company and its subsidiaries. **Price**—To be supplied by amendment. **Underwriter**—None. **Proceeds**—Proceeds from sale of stock, together with those from the proposed sale and issue of $40,000,000 of serial debentures in June and general funds of the company are expected to be used in part for property additions and improvements and in part for the payment of bank loans which are expected to amount to about $13,000,000 on April 30.

Northwest Cities Gas Co., Walla Walla, Wash.
March 15 (letter of notification) 21,370 shares of convertible preferred stock (par $5), 10,685 shares being offered to common stockholders of record April 3 on a share-for-share basis at $10 per share, rights to expire May 1. The remaining 10,685 shares and any unsubscribed shares are also to be sold at not less than $10 per share, less a commission not exceeding 50 cents per share. **Underwriter**—None. **Proceeds**—To convert plant in Eugene, Ore., to propane gas and to improve mains and facilities, as well as for working capital.

Norwich (N. Y.) Pharmacal Co.
March 24 filed 50,000 shares of 4.50% series A convertible preferred stock (par $30) offered to common stockholders of record April 17 at the rate of one preferred share for each 16 common shares held; rights will expire May 2. **Underwriter**—Hornblower & Weeks, New York. **Price**—$32.50 per share. **Proceeds**—To build a $500,000 chemical plant and warehouse facilities north of Norwich, N. Y., and to expand business.

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Ohio Edison Co. (5/16)
April 14 filed $58,000,000 of first mortgage bonds, due 1980. **Underwriter**—To be decided by competitive bidding. Probable bidders include: Halsey, Stuart & Co., Inc.; Morgan Stanley & Co.; White, Weld & Co. and Glore, Forgan & Co. and Union Securities Corp. (jointly); First Boston Corp. **Proceeds**—To retire outstanding indebtedness of Ohio Public Service Co., which is being merged with Ohio Edison. Expected at 11:30 a.m. (EDT) on May 16.

Oklahoma Gas & Electric Co. (5/15)
April 17 filed $17,500,000 of first mortgage bonds, due 1980. **Underwriter**—To be determined by competitive bidding. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc.; Lehman Brothers and Blyth & Co., Inc. (jointly); Equitable Securities Corp.; Harriman Ripley & Co. **Proceeds**—For construction, redemption of $7,500,000 outstanding 3¼% first mortgage bonds, and to pay bank loans. Expected May 15.

Orchards Telephone Co., Orchards, Wash.
March 16 (letter of notification) 500 shares of common stock. **Price**—At par ($100 per share). **Underwriter**—None. **Proceeds**—To modernize plant.

● **Pacific Cabinet & Radio Co., Van Nuys, Calif.**
April 24 filed 168,125 shares of common stock (par 50¢) of which 131,250 will be offered by the company and 16,875 by Max Stettner, President. **Underwriter**—Lester & Co., Los Angeles. **Price**—$3.50 per share. **Proceeds**—To pay indebtedness and for general funds. **Business**—Assembly and sale of TV receivers, radios and radio-phonograph combinations. Company plans change in name to Mercury Television Mfg. Co.

● **Pacific Peppermint Producers, Inc., Portland, Oregon**
April 17 (letter of notification) 4,000 shares of common capital stock (no par) to be issued only to peppermint oil producers at $50 per share. No underwriter. Proceeds for working capital, equipment and facilities. **Office**—417 S. W. Washington Street, Portland, Ore.

Pacific Refiners, Ltd., Honolulu, Hawaii
March 29 filed $750,000 of 6% 15-year sinking fund debentures, due 1965 and 500,000 shares of common stock (par $1) to be offered in units of $3 principal amount of debentures and two shares of common stock at $5 per unit to common stockholders of record April 14 at the rate of one unit for each share. Unsubscribed securities will be retained by the company and subject to future issuance as may be subsequently determined. No underwriter. Proceeds for construction expenditures. Company refines and markets crude oil.

Pan American Gold Ltd., Toronto, Canada
July 20, 1948 filed 1,983,295 shares of common stock (par $1). Underwriters may be brokers. **Price**—45 cents per share. **Proceeds** — Mainly for development. Statement effective April 10, 1950.

● **Pandora Metals, Inc., Aurora, Colo.**
April 21 (letter of notification) "original issue from treasury common stock, fully paid, non-assessable (nominal par value one mill)." **Price**—$1 per unit. **Underwriter**—None. **Proceeds**—For operating expenses and exploratory work. **Office**—1555 Dayton Street, Aurora, Colorado.

Peelers, Inc., Houma, La.
April 10 (letter of notification) $250,000 5% redeemable income debentures, series B, due 1962. No underwriter. Proceeds to manufacture shrimp peeling machines. **Office**—1110 E. Main St., Houma, La.

● **Pell, de Vegh Mutual Fund, Inc., New York City**
April 20 filed 100,000 shares of capital stock. No underwriter. An investment fund.

Peninsular Telephone Co., Tampa, Fla.
April 12 (letter of notification) 50,938 shares of common stock (no par) to be offered to stockholders of record May 2 at rate of one new share for each five held; rights to expire May 16. **Underwriters**—Morgan Stanley & Co.; Coggeshall & Hicks; and G. H. Walker & Co., New York. **Price**—To be filed by amendment. **Proceeds**—For general corporate purposes, including expansion of facilities. Statement expected to become effective about May 2.

Phillips Petroleum Co., Bartlesville, Okla.
March 31 filed $75,637,900 of 2⅜% debentures, due 1975, convertible into common stock until May 1, 1960, being offered to stockholders of record April 18 at the rate of $100 of debentures for each eight shares held. Rights will expire on May 2. **Underwriter**—The First Boston Corp., New York. **Price**—100½ along with interest rate. **Proceeds**—To pay off indebtedness incurred for expansion of the company and a wholly owned subsidiary, Phillips Chemical Co.

Pioneer Telephone Co., Waconia, Minn.
March 30 (letter of notification) 1,000 shares of 5% cumulative preferred stock, series B. **Price**—At par ($100 per share). **Underwriter**—H. M. Bishop & Co., Minneapolis, Minn. **Proceeds**—To expand service.

● **Potomac Electric Power Co., Wash., D. C. (5/9)**
April 21 filed $30,000,000 of first mortgage bonds, due 1985, and 710,700 shares of common stock (par $10), with the stock offering to be made to holders of outstanding common at the rate of one new share for each five held. **Underwriter**—Dillon, Read & Co. Inc., heads a syndicate of nine underwriters for unsubscribed shares of common stock. Bond underwriters to be filed by amendment, along with the interest rate and offering prices of both securities. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Lehman Brothers; Stone & Webster Securities Corp. and Union Securities Corp. (jointly); White, Weld & Co. and Salomon Bros. & Hutzler (jointly); Harriman Ripley & Co., Inc.; First Boston Corp.; Kuhn, Loeb & Co.; Blyth & Co., Inc. and Smith Barney & Co. (jointly). **Proceeds**—To redeem $20,000,000 outstanding 3¼% bonds due 1966, pay bank loans and for construction. Expected next month.

Power Petroleum Ltd., Toronto Canada
April 25, 1949, filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—S. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27, 1949.

● **Proctor & Gamble Co.**
April 24 filed approximately 30,000 shares of common stock for sale to the trustees of The Proctor & Gamble Profit Sharing Dividend Plan and The Proctor & Gamble Stock Purchase Plan under which regular employees of the company and its subsidiaries are eligible to participate.

● **Provident Life Insurance Co., Bismarck, N. D.**
April 19 (letter of notitication) 12,500 shares of common stock (par $10) to be offered directly to stockholders at $20 per share. No underwriter. Proceeds to maintain the proper ratio of capital and surplus to liabilities in connection with entering the accident and health insurance field. **Office**—Broadway at Second, Bismarck, N. D.

Public Service Electric & Gas Co. (5/2)
March 29 filed $26,000,000 first and refunding mortgage bonds to be dated May 1, 1950, and to mature May 1, 1980. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); First Boston Corp.; Union Securities Corp. and White, Weld & Co. (jointly). **Proceeds**—To redeem a like amount of first and refunding mortgage bonds, 3¼% series, due 1966, at 103%. **Bids**—To be received by the company at 80 Park Place, Newark, N. J., up to 11 a.m. (EDST), on May 2.

Rand McNally & Co., Chicago
March 14 (letter of notification) 20,000 shares of common stock (par $10). **Price**—$15 per share. Underwriter—None. **Proceeds**—To be added to working capital. **Office**—536 So. Clark Street, Chicago, Ill.

Reid Brothers, Ltd., San Francisco, Cal.
April 3 (letter of notification) 10,000 shares of preferred stock. **Price** — At par ($10 per share.) **Underwriter**—Denault & Co., San Francisco. **Proceeds**—To restore depleted stocks, buy new items and for additional working capital.

Rochester (N. Y.) Gas & Electric Corp.
April 5 filed 80,000 shares of 4% cumulative preferred stock, series H (par $100), of which 50,000 share are offered, along with an unspecified amount of cash, in exchange for outstanding 4¾% preferred stock, series G, on a share for share basis. **Underwriter**—The First Boston Corp. and eight other New York and Rochester firms. **Proceeds**—To redeem unexchanged 4¾% preferred stock, reimburse the company for construction expenditures and for additional construction. The exchange offer will expire May 4.

Security Insurance Co. of New Haven
March 22 filed 50,000 shares of capital stock (par $10) and warrants enabling stockholders to purchase these shares at $30 per share on the basis of one share for each five held April 12. Rights will expire May 2. **Underwriters**—Chas. W. Scranton & Co. and Day, Stoddard & Williams, Inc. **Proceeds**—To increase company's capital and surplus.

Service Finance Co., Los Angeles, Calif.
Dec. 19 (letter of notification) 65,000 shares of common stock. **Price**—Par ($1 each). **Underwriter**—Dempsey Tegeler & Co., Los Angeles. **Proceeds**—For working capital. **Office**—607 S. Hill Street, Los Angeles.

● **Sheep Creek Oil & Gas Co., Scottsbluff, Neb.**
April 17 (letter of notification) 2,750 certificates of interest, to be issued at par ($100). No underwriter. Proceeds to acquire and prospect oil and gas leases.

● **Simplon International, Inc., Miami Beach, Fla.**
April 20 (letter of notification) 127,000 shares of common stock (par 10¢). **Price**—$2.25 per share. **Underwriter**—None. **Proceeds**—To manufacture and distribute products. **Office**—605 Lincoln Road, Miami Beach, Fla.

Sinclair Oil Corp.
Jan. 27 filed 598,700 shares of common stock (no par) to be offered to officers and employees of the company and subsidiaries under a stock purchase plan. These shares are either held in the treasury or will be reacquired. The maximum number of shares which can be sold under this plan in a five-year period is 598,700, or 5% of the outstanding shares. **Proceeds**—For general funds.

● **(The) Smile Co., New York, N. Y.**
April 25 (letter of notification) 50 limited partnership interests. **Price**—$1,200 each. **Underwriter**—None. **Proceeds**—To defray operating expenses incurred in producing play entitled "Giaconda Smile."

Southeastern RR. Co., Inc., Statesboro, Ga.
March 29 (letter of notification) subscriptions to 6,000 shares of common stock at $50 per share, the subscriptions to be exchanged for shares after company begins to function as a corporation. No underwriter. Proceeds to build a railroad from Monticello to Atlanta, Ga.

● **Southern California Edison Co.**
April 24 filed 1,000,000 shares of cumulative preferred stock (par $25). **Underwriters**—First Boston Corp. and Harris, Hall & Co. (Inc.). **Price**—To be filed by amendment. **Proceeds**—To pay notes and furnish construction funds.

● **Southern Fire & Casualty Co., Knoxville, Tenn.**
April 17 (letter of notitication) 11,000 shares of capital stock (no par). **Price**—$10 per share. **Underwriters**—Strader, Taylor & Co., Lynchburg, Va., and Bullington, Schas & Co., Memphis, Tenn. **Proceeds**—To finance growth and expansion.

● **Speculators, Inc., Washington, D. C.**
April 17 (letter of notification) 150,000 shares of capital stock (no par). **Price**—$1.50 per share. **Underwriter**—None. **Proceeds**—For working capital. **Office**—830 Bowen Building, Washington, D. C.

Spencer Chemical Co., Kansas City, Mo. (5/2)
April 10 filed 250,000 shares of $6 par value common stock (par $6) to be sold for account of J. H. Whitney & Co., The Pittsburg and Midway Coal Mining Co. and Kenneth A. Spencer. **Underwriters**—Glore, Forgan & Co. and Kidder, Peabody & Co. **Price**—To be filed by amendment. Expected May 2.

Springfield City Water Co., Springfield, Mo.
April 7 (letter of notification) 2,000 shares of Series E 4¼% cumulative preferred stock (par $100). **Price**—$102 per share. **Underwriters**—H. M. Payson & Co., Portland, and The Moody Investment Co., Springfield, Mo. **Proceeds**—To expand properties and pay indebtedness.

● **Sudanental Corp., Washington, D. C.**
April 19 (letter of notification) 20,000 shares of common stock at $10 per share, of which 2,000 shares will be issued to William B. P. Gray for his organizational expenditures. No underwriter. Proceeds to buy land, build a plant and manufacture concrete products. **Office**—Bond Building, 14th and New York Avenue, N. W., Washington 5, D. C.

Sudore Gold Mines Ltd., Toronto, Canada
June 7 filed 375,000 shares of common stock. **Price**—$1 per share (U. S. funds). **Underwriter** — None. **Proceeds**—Funds will be applied to the purchase of equipment, road construction, exploration and development.

Syracuse Suburban Gas Co., Inc.
April 11 (letter of notification) 300 shares of 5% cumulative non-convertible preferred stock. **Price**—At par ($100 per share). **Underwriter**—None. Offered directly through company and its affiliate, Suburban Gas Co., Inc. **Proceeds**—For construction costs and working capital. **Office**—207 N. Center Street, East Syracuse, N. Y.

Teco, Inc., Chicago
Nov. 21 filed 100,000 shares ($10 par) common stock. **Offering**—These shares are to be offered to holders of common stock in Zenith Radio Corp. of record July 15, 1949, at rate of one share for each five held. **Price**—At par. **Underwriter**—None. **Proceeds**—For working capital and the promotion of Zenith's "Phonevision" device, whereby television users could pay a special fee for costly television programs by calling the telephone company and asking to be plugged in.

Texas Electric Service Co.
April 6 filed 175,000 shares of $4 preferred stock (no par) of which 65,000 are offered in exchange for a like number of outstanding $6 preferred shares on a share-for-share basis and the remainder will be sold to the public. **Underwriters**—Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane, New York. **Price**—At par. **Proceeds**—For construction.

Texas Power & Light Co.
April 6 filed 203,786 shares of preferred stock (no par) of which 133,786 shares ($4.56 series) are offered to holders of outstanding 7% and $6 preferred stocks in exchange for their shares on a share-for-share basis, plus a dividend adjustment on all exchanges and a $5 per share payment on all 7% shares exchanged. Unexchanged shares and remaining 70,000 shares ($4 series) will be sold publicly (latter publicly offered on April 25 at $100 per share and dividend). Exchange offer will continue from April 26 to May 17. **Underwriters**—Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and Union Securities Corp. **Price**—For $4.56 series to public $110 per share. **Proceeds**—To pay off loans from Texas Utilities Co., parent, for construction.

Toledo Edison Co.
April 18 filed 4,102,000 shares of common tsock (par $5), of which 400,000 will be sold by the company and the remainder offered by The Cities Service Co. to its own common stockholders at the rate of one Toledo share for each Cities Service share held about May 11, with rights expected to expire about May 29. **Underwriter**—The company's offering will be made under competitive bidding; no underwriter is named for the Cities Service offering. Probable bidders: Blyth & Co., Inc.; W. C. Langley & Co.; Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Smith Barney & Co. **Price**—To be filed by amendment. **Proceeds**—To be applied toward construction.

● **Tri-State Oil & Refining Co., Denver**
April 17 (letter of notification) 3,000,000 shares of common or capital stock (par 5¢). **Price**—10 cents per share. **Underwriter**—Carl L. Lough & Co., Denver. **Proceeds**—To retire indebtedness and pay drilling expenses. **Office**—520 Cooper Building, Denver, Colo.

Turner Airlines, Inc., Indianapolis, Ind.
March 10 (letter of notification) 60,000 shares of common stock (no par). **Price**—$4 per share. **Underwriter**—None. **Proceeds**—To buy planes, pay overhaul and for working capital and general corporate purposes. **Office** — Weir Cook Municipal Airport, Indianapolis, Ind.

United Mines of Honduras, Inc., Wilmington, Delaware
March 16 (letter of notification) 150,000 shares of common stock (par 50 cents). **Price**—$2 per share. **Under-**

writer—Willis E. Burnside & Co., Inc., New York City. **Proceeds**—To pay indebtedness and for general corporate purposes. **Office**—North American Building, Wilmington, Del. Expected in April.

• Video Corp. of America (5/1)
April 24 (letter of notification) 747,500 shares of common stock (par 10c). **Price**—40 cents per share. **Underwriter**—Tellier & Co. **Proceeds**—To purchase additional equipment and for working capital.

Videograph Corp., N. Y. City
Feb. 2 (letter of notification) 300,000 shares of common stock (par 10c). **Price**—$1 per share. **Underwriter**—George J. Martin Co., New York. **Proceeds**—For additional working capital. **Business**—Assembles a coin operated combination television and phonograph. **Office**—701—7th Avenue, New York, N. Y.

Western Uranium Cobalt Mines, Ltd., Vancouver, B. C., Canada
Feb. 28 filed 800,000 shares of common capital stock (par $1). **Price**—35 cents per share. **Underwriter**—None. **Proceeds**—Exploration and development work.

White (S. S.) Dental Mfg. Co.
April 3 filed 49,891 shares of capital stock (par $20). Of the total shares, 29,891 are offered to stockholders of record April 24 at the rate of one new share for each 10 held and employees of the company and its subsidiaries will be given the right to buy the additional 20,000 shares plus any remaining from the stockholders' offering; rights will expire May 8. **Underwriter**—Drexel & Co., Philadelphia. **Price**—128.25 per share. **Proceeds**—For additional working capital.

• White's Auto Stores, Inc. (5/10-11)
April 21 filed 40,000 shares of 5% convertible cumulative preferred stock ($25 par) and 75,000 shares of common stock ($1 par). **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Price**—To be filed by amendment. **Proceeds**—To be added to working capital for payment of bank loans and for opening retail stores in Dallas, Odessa and Monohans, Texas.

• World Wide Press Syndicate, Inc., N. Y.
April 19 (letter of notification) $250,000 of 3½% debenture bonds due in 15 years. **Price**—At par. **Underwriter**—None. **Proceeds**—For expansion, etc. **Office**—3 West 17th St., New York, N. Y.

Prospective Offerings

American Can Co., New York, N. Y.
March 3 announced company is considering a program of long-term financing for working capital. Probable underwriters: Morgan Stanley & Co.; Clark, Dodge & Co.; F. S. Moseley & Co.

• Associated Telephone Co.
April 21 company reported planning early registration of 175,000 shares of preferred stock, the proceeds to finance construction costs. Traditional underwriters: Stone & Webster Securities Corp.; Paine, Webber, Jackson & Curtis; Mitchum, Tully & Co.

Atlantic Coast Line RR.
April 18 stockholders approved the creation of a new mortgage dated March 1, 1950, providing for a maximum of $200,000,000 bonded indebtedness. Holders of $50,724,000 outstanding non-callable first consolidated mortgage 4% bonds due July 1, 1952, have been offered in exchange, par for par, new general mortgage series A bonds due March 1, 1980, with Morgan Stanley & Co. to manage the solicitation of exchanges on behalf of the company.

• Bangor & Aroostook RR.
April 18 ICC approved debt rearrangement plan which provides that outstanding $16,665,000 consolidated refunding mortgage 4% bonds due July 1, 1951 be extended to 1976 and redesignated as first mortgage (convertible) 4½% bonds. The plan will become effective if accepted by 75% of the 4% bonds.

Broadway Department Store, Inc.
April 11 stockholders approved offer of 1¾ shares of company's common stock in exchange for each share of Hale Bros. Stores, Inc. stock under a plan of consolidation. Expected exchange offer will be made about May 15. Traditional underwriter: Blyth & Co., Inc.

Budget Finance Plan, Inc.
March 20 reported company plans to issue bonds, probably to an amount of $1,250,000.

California Electric Power Co. (5/23) (6/7)
April 12 company filed with California P. U. Commission tentative financing plans calling for the sale of 180,000 additional shares of common stock and $2,000,000 of a new series of first mortgage bonds. The stock is expected to be sold on a negotiated basis with the offering tentatively set for May 23 (traditional underwriters: Shields & Co. and Walston, Hoffman & Goodwin). The bonds are to be sold through competitive bidding about June 7 (probable bidders: Halsey, Stuart & Co. Inc.; Shields & Co.; Kidder, Peabody & Co.). Invitations for bids on the bonds are expected to be published on May 31. **Proceeds**—To finance in part property expenditures for 1950 and 1951.

Celanese Corp. of America
April 12 the stockholders voted to authorize the creation of 1,000,000 shares of a new preferred stock (par $100), 505,000 shares of which can be issued at any time. Plans are being formulated for the issuance this year, if market conditions are considered satisfactory, of an initial series of this new preferred stock which may be convertible into common stock. Net proceeds would be used in part for expansion of the business, including additional production facilities. Probable underwriters: Dillon, Read & Co. Inc.; Morgan Stanley & Co.

Central States Electric Corp.
March 1 it was announced that under an amended plan of reorganization it is proposed to issue to holders of all classes of 6% preferred stock for each old share the right to buy a unit consisting of eight shares of new common stock and $14 principal amount of new 4½% income debentures for a package price of $18. The common stock, except for approximately 4,600,000 shares held by Harrison Williams and associates, would be offered the right to buy a unit of one new common share and $1.75 of new income debentures for a package price of $2.25 for each five common shares held. The issue of new stock and debentures would be underwritten by Darien Corp. and a banking group headed by Hemphill Noyes, Graham, Parsons & Co., Shields & Co., Blair, Rollins & Co., Drexel & Co. and Sterling Grace Co.

• Chicago, Rock Island & Pacific RR. (5/11)
Bids will be received up to noon (CDT) on May 11 at company's office, Room 1136, La Salle Street Station, Chicago for the purchase of $3,630,000 equipment trust certificates, series G, dated June 1, 1950, to mature in 30 equal semi-annual instalments from Dec. 1, 1950 to June 1, 1965. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly); Lee Higginson Corp.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Commercial Credit Co.
March 30 stockholders approved creation of 500,000 shares of cumulative preferred stock (par $100) of which company plans to sell 250,000 shares. A group of underwriters, headed by Kidder, Peabody & Co. and The First Boston Corp., are expected to offer the stock.

• Commonwealth Natural Gas Corp.
March 30, FPC approved construction of 200 mile pipeline in Virginia to cost an estimated $6,425,000. Financing may be handled by Scott & Stringfellow, Richmond, Va.

Dallas Power & Light Co.
April 7 reported that the company is considering the possible refunding of its outstanding $16,000,000 first mortgage 3½% bonds due 1967, which are callable at 104½ and interest. Probable bidders: Same as in following item.

Dallas Power & Light Co.
Dec. 24 company reported planning sale, probably in May, of $8,500,000 first mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Lehman Brothers; Salomon Bros. & Hutzler; First Boston Corp.; Union Securities Corp.; Kidder, Peabody & Co.; Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Harriman, Ripley & Co., Inc. Proceeds to finance expansion.

Delaware, Lackawanna & Western RR.
April 3 company applied to ICC for authority to issue $11,613,600 of new Pennsylvania Division refunding mortgage and collateral trust bonds due 1985 and for exemption from competitive bidding. The bonds are to be offered in exchange for Morris & Essex consolidated mortgage bonds, 5s series A, and 4½s series B, due 1955 on basis of $400 in cash and $600 in new bonds (with interest at same rate as old bonds). The lien of the new bonds will be subject only to a new first mortgage under which a maximum of $12,000,000 may be issued. Of this amount, Metropolitan Life Insurance Co. will purchase up to $7,750,000, the amount necessary should all Morris & Essex bonds assent to the exchange. Georgeson & Co. will aid in soliciting exchanges. The First National Bank of New York is exchange agent.

• Denver & Rio Grande Western RR. (5/9)
Bids will be received up to noon (CDT) on May 9 for the purchase from the company of $2,790,000 equipment trust certificates, series P, to be dated June 1, 1950, and to mature over a 15-year period. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

• General Phoenix Corp.
June 7 stockholders will vote on increasing authorized debt to $15,000,000 from $8,000,000 and to change name to General Acceptance Corp. No immediate financing contemplated, Traditional underwriter: Paine, Webber, Jackson & Curtis.

General Public Utilities Corp.
March 13 corporation has received SEC authorization to solicit stockholder approval of a proposed charter amendment which would permit the public offering of any of its stock for cash without according the then existing stockholders prior subscription rights to such stock. The proposal is to be voted upon at the annual meeting to be held May 1, and must obtain the favorable vote of the holders of two-thirds of the company's outstanding shares entitled to vote.

Georgia Natural Gas Co.
April 5 company applied to the FPC for authority to construct a 335-mile line in Georgia and Florida to cost approximately $4,872,593. It is planned to finance this project by the issuance of $3,650,000 of first mortgage bonds, with the balance from the sale of common stock.

Georgia Power Co.
April 11 it was reported that the company may refund its $101,271,000 3½% first mortgage bonds due 1971 held privately by 27 insurance firms. Probable underwriters: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; or First Boston Corp.

Feb. 21 company reported to be planning $6,000,000 additional financing before the end of 1950; $18,000,000 more in 1951, and $16,000,000 more in 1952. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Drexel & Co.; Lehman Brothers; Harriman Ripley & Co., Inc.; Shields & Co. and Salomon Brothers & Hutzler (jointly); Blyth & Co., Inc.; Union Securities Corp. and Equitable Securities Corp. (jointly).

Green Mountain Power Corp.
March 7 amended plan of reorganization filed with SEC provides for sale of approximately 100,000 shares of new common stock for cash to the public through underwriters, subject to prior subscription rights by present preferred stockholders. Exemption from competitive bidding has been requested. **Proceeds**—To retire 4¼% notes and for working capital.

• Gulf States Utilities Co.
April 10 company reported planning sale of $13,000,000 first mortgage bonds, the proceeds to finance construction costs. Probable bidders: Halsey Stuart & Co. Inc.; Stone & Webster Securities Corp.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Carl M. Loeb, Rhoades & Co. and Lee Higginson Corp. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; White, Weld & Co. Expected next month.

Indiana & Michigan Electric Co.
Feb. 27 company was reported to be contemplating the issuance and sale of $20,000,000 first mortgage bonds in June or July, the proceeds to finance construction program. Probable bidders: Halsey, Stuart & Co. Inc.; First Boston Corp.; Union Securities Corp.; Harriman Ripley & Co., Inc. Possible refunding of privately held $22,500,000 3¼% first mortgage bonds is also said to be under consideration.

International Utilities Corp.
April 15 the company was reported to be planning the sale of $4,000,000 of convertible bonds (payable in U. S. funds). Probable underwriter: Butcher & Sherrerd. Proceeds will be for new construction.

Interstate Department Stores, Inc.
May 10, stockholders will vote on increasing authorized common stock from 320,000 shares to 500,000 and on authorizing the directors to issue new common stock without first offering present holders the right to subscribe for additional shares. It was stated, however, that the company had no present intentions of issuing any new stock.

Iowa Electric Co.
March 10 reported that early registration with SEC is expected of an offering of about $18,000,000 preferred and common stocks through a negotiated deal. Probable underwriters: First Boston Corp. and G. H. Walker & Co.

Kansas City Power & Light Co.
March 31 reported planning sale of $12,000,000 to $15,000,000 of first mortgage bonds this year in addition to the sale of additional equity securities. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); White, Weld & Co., Shields & Co. and Central Republic Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly); The First Boston Corp.; Equitable Securities Corp.; Smith, Barney & Co.; Kuhn, Loeb & Co., Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Harriman Ripley & Co.

Lone Star Gas Co.
March 23 announced that the company plans long-term borrowings in order to retire two short-term bank notes amounting to $5,000,000 and other loans which were the result of new construction expenditures during 1949; viz: $47,500,000 in instalment notes (including $2,500,000 current maturities) outstanding at the close of last year.

Lorillard (P.) Co.
April 4, Herbert A. Kent, President, said: "It may be necessary to do some financing" before Aug. 1, 1951 to redeem $6,195,450 of 5% bonds due on that date and for additional working capital to meet expanded sales volume. He added that company plans to pay off its bank loans in full by July, 1950. These loans now amount to $12,000,000. Traditional underwriters: Lehman Bros. and Smith, Barney & Co.

Maine Public Service Co.
April 10 it was announced company plans to issue $1,000,000 mortgage bonds (in addition to 30,000 shares of 5½% preferred stock filed April 24 with SEC), the proceeds to be used for expansion.

• Mathieson Hydrocarbon Chemical Corp.
April 19 completion of organization of this $27,000,000 joint venture of Mathieson Chemical Corp. and Tennessee Gas Transmission Co. was announced. The two latter companies will each subscribe for $5,000,000 of common stock and $17,000,000 bonds are to be placed privately. Tennessee's share (466,667 shares) are to be offered for subscription by Tennessee's stockholders. **Underwriters**—Stone & Webster Securities Corp. and White, Weld & Co.

• Michigan Gas & Electric Co.
March 28 it was announced that company planned to issue (in addition to 12,000 shares of common stock offered common stockholders in that month at $20 per share) $500,000 of first mortgage bonds, series, C, and 2,500 shares of preferred stock (par $100). The proceeds, together with $1,170,000 from other funds, would be used to finance the company's construction program. Bonds may be placed privately. Last issue of preferred stock was offered in 1947 by Otis & Co., Cleveland.

Milwaukee Gas Light Co.
April 18 reported contemplating issuance of additional securities, the proceeds of which will be used to finance $13,000,000 of first 4½s due 1967 and $2,000,000 of 7% preferred stock, to fund some $8,500,000 of bank loans, and for new construction. No definite plan has been evolved. Probable bidders—Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Glore, Forgan & Co., and Lehman Brothers (jointly); Kidder, Peabody & Co.; Harriman Ripley & Co.; Smith, Barney & Co. and Blyth & Co., Inc. (jointly); Kuhn, Loeb & Co.

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Montana-Dakota Utilities Co.
May 1 bondholders will vote on increasing the aggregate principal amount of bonds which may at any one time be outstanding to $40,000,000 from $20,000,000.

Montana Power Co.
Dec. 20 reported company may sell in 1950 and 1951 approximately $22,000,000 in new securities, which may include bonds and debentures and possibly some additional common stock. Financing of $10,000,000 or more in bonds may be undertaken in May. The proceeds are to be used for expansion and extension of its gas and electric lines. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Smith, Barney & Co.; First Boston Corp.; Lehman Brothers.

• **Natalie Kalmus Television Corp.**
April 19 reported planning offering of 400,000 shares of common stock at $1 per share.

• **New England Public Service Co.**
April 7 SEC authorized company to file an application to sell 200,000 shares of Public Service Co. of New Hampshire common stock or a sufficient number of shares of Central Maine Power Co. common stock to raise approximately the same amount of money. Probable bidders: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Coffin & Burr, Inc.; First Boston Corp.; Harriman Ripley & Co. Inc. and Goldman, Sachs & Co. (jointly); The proceeds will be used to pay bank loans.

New York Central RR. (6/1)
Feb. 7 reported that offering of $11,100,000 equipment trust certificates is expected early in June. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc. and Lehman Brothers (jointly).

Northern Natural Gas Co.
Jan. 20 announced that the company proposes to issue and sell at competitive bidding $40,000,000 of 2¾% 20-year debentures. The net proceeds, together with other funds, will be used to finance the company's construction program. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; Kidder, Peabody & Co. Offering expected in June.

Northwestern Bell Telephone Co.
April 17 announced company is preparing to sell $60,000,000 of new debentures at competitive bidding during the first week of June. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Proceeds**—To be applied toward redemption of $75,000,000 3¼% debentures due 1979. **Registration**—Expected early next month.

Oswego Falls Corp.
March 20 stockholders approved $500,000 additional first mortgage bonds, which are expected to be issued about May 15.

Pacific Petroleum, Ltd. (Canada)
April 12 company announced it plans to file with SEC 1,000,000 additional shares of common stock shortly. **Proceeds** (U. S. currency) will be used for further expansion and development work in the Alberta oil field. **Underwriter**—Eastman, Dillon & Co.

Pennsylvania Power & Light Co.
April 17 the stockholders voted to authorize 100,000 additional shares of series prefgerred stock and 12,000 additional shares of 4½% preferred stock. Latter issue is to be offered in exchange, share for share, for present outstanding 4½% preferred stock. It is expected not over 75,000 shares of series preferred stock will be sold in late 1950 or early 1951. **Traditional Underwriters**—First Boston Corp.; Drexel & Co. **Proceeds**—To finance balance of 1950 construction program.

Peoples Gas Light & Coke Co.
April 18 James F. Oates, Jr., Chairman, announced plans for offering to stockholders of 116,962 additional shares of capital stock at par on a basis of one new share for each seven shares held. A registration statement will soon be filed with the SEC. Record date will be determined later. Proceeds will in part replace funds expended for the purchase in December, 1948, of stocks of Natural Gas Pipeline Co. of America and Texoma Natural Gas Co. Presently outstanding $10,000,000 in short term bank loans will ultimately be permanently financed.

• **Philip Morris & Co., Ltd., Inc.**
April 24 company announced that directors are considering the sale of $13,061,000 preferred stock and 333,077 shares of common stock to present common stockholders at rate of one preferred share for each 15 common shares, and one new common share for each six common shares held. Traditional underwriter: Lehman Brothers.

• **Pittsburgh & Lake Erie RR. (5/18)**
April 24 it was reported that the company plans the issuance and sale of $10,000,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; Lehman Brothers. **Bids**—Scheduled for May 18.

• **Portland General Electric Co.**
April 17 company announced that permanent financing to retire bank loans or to provide additional capital funds is planned for 1951 or 1952 and may be accomplished by sale of either bonds or equity securities.

Public Service Co. of Colorado
May 22 stockholders will vote on increasing authorized preferred stock (par $100) from 300,000 shares to 375,000 shares; the additional 75,000 shares, in addition to $7,500,000 debentures are expected to be sold about mid-year. Probable bidders: (1) for preferred: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); First Boston Corp., Boettcher & Co. and Bosworth, Sullivan & Co. (jointly); Lehman Brothers; (2) for debentures: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc., and Smith, Barney & Co. (jointly); First Boston Corp.; Kidder, Peabody & Co.; (3) for both issues: Lehman Brothers; Harris, Hall & Co. (Inc.).

Public Service Electric & Gas Co.
April 17 stockholders approved the issuance of $90,000,000 new bonds for the purpose of refunding $50,000,000 3⅛% bonds due 1965; $10,000,000 3¼% bonds due 1968; $15,000,000 3% bonds due 1970 and $15,000,000 bonds due 1972. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan, Stanley & Co. and Drexel & Co. (jointly); Kuhn, Loeb & Co. and Lehman Brothers (jointly); First Boston Corp.

Schering Corp.
Jan. 26 announced the Alien Property Custodian is preparing to offer at competitive bidding 440,000 shares of common stock (total issue outstanding) in April. Registration with the SEC expected shortly. Probable bidders: A. G. Becker & Co. (Inc.), Union Securities Corp. and Ladenburg, Thalmann & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; F. Eberstadt & Co.; Allen & Co.

Seaboard Air Line RR. (5/10)
Feb. 7 directors appointed a committee to proceed with the refunding of the $31,534,500 outstanding 4% first mortgage bonds, provided satisfactory terms could be arranged. Probable bidders include Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.; Lehman Brothers; First Boston Corp. and Harriman Ripley & Co. (jointly); Union Securities Corp. **Bids**—For the purchase of $30,000,000 first mortgage bonds, series B, due May 1, 1980, will be received by company at office of Willkie, Owen, Farr, Gallagher & Walton, 15 Broad St., New York 5, N. Y., by noon (EDT) on May 10.

Southern California Edison Co.
March 3 it was reported that company expects to issue this summer $55,000,000 of bonds. Probable bidders: The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Shields & Co. Proceeds would be used to refund $30,000,000 3¼% bonds and for construction costs.

Southern California Gas Co.
Dec. 19 reported company may issue and sell approximately $20,000,000 of bonds, probably in May. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Lehman Brothers; Harris Hall & Co. (Inc.); White, Weld & Co.; Merrill Lynch, Pierce, Fenner & Beane; the First Boston Corp.; Shields & Co.; Kidder, Peabody & Co.

Sunray Oil Corp.
March 31 reported the registration statement may be filed this month involving about $80,000,000 financing in connection with proposed merger of Sunray with Barnsdall Oil Co., which is still in formative stages. Eastman Dillon & Co. are bankers for Sunray.

• **Texas Hydro-Electric Corp.**
April 17 it was announced that company plans sale of $1,400,000 first mortgage 25-year 3¼% bonds and $200,000 15-year 4% sinking fund debentures under its recapitalization and refinancing plan. The proceeds would be used to refund its outstanding first mortgage bonds and to acquire its preferred stock.

Texas-Illinois Natural Gas Pipeline Co.
Dec. 5 it was announced company plans to build a 1,400 mile pipeline, which it is estimated will cost between $140,000,000 and $150,000,000. James F. Oates, Jr., Chairman of Peoples Gas Light & Coke Co., stated financing of the new project would probably consist of 75% debt and 25% stock. Probable bidders: (1) for bonds: Halsey, Stuart & Co.; (2) for preferred stock: White, Weld & Co.; Glore, Forgan & Co.

Texas & Pacific Ry.
March 21 directors approved purchase of 13 additional Diesel-electric locomotives (to cost approximately $3,500,000), to be financed largely by equipment trust certificates (expected to total around $2,400,000). Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp.; Kidder, Peabody & Co.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Inc.; Harris, Hall & Co. (Inc.); Blair & Co., Inc., L. F. Rothschild & Co. and Schoellkopf, Hutton & Pomeroy, Inc. (jointly); Bankers Trust Co., New York.

Traveler Radio & Television Corp.
April 12 reported to be planning issuance of additional stock.

Virginia Electric & Power Co.
March 27 it was reported that company may issue next fall $20,000,000 of "new money bonds." Probable bidders: Halsey, Stuart & Co. Inc.; Union Securities Corp.; Kuhn, Loeb & Co.; White, Weld & Co.; Stone & Webster Securities Corp.; Salomon Bros. & Hutzler.

• **Wabash RR. (5/24)**
April 25 it was stated that the company plans issuance of $5,220,000 equipment trust certificates to mature over a 15-year period. Probable bidders: Halsey, Stuart & Co. Inc.; Lee Higginson Corp.; Lehman Brothers and Schoellkopf, Hutton & Pomeroy, Inc. (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.). **Bids**—Expected to be received May 24.

West Coast Transmission Co., Ltd.
Feb. 10 reported that Eastman, Dillon & Co. and the First Boston Corp. were ready to underwrite the financing of the 1,400 mile pipe line proposed by the West Coast Transmission Corp., along with Nesbitt, Thomson & Co., Ltd., of Montreal, Canada, and Wood, Gundy & Co. of Toronto, Canada. The financing would be divided 75% to bonds and the remainder to preferred and common stock. A large amount of the bonds are expected to be taken by life insurance companies. Arrangements will be made to place in Canada part of the securities. It is expected an American corporation will be formed to construct and operate the American end of the line in Washington, Oregon and California. The completed line, it was announced, will cost about $175,000,000.

Wisconsin Electric Power Co.
March 23 reported company plans to issue $25,000,000 of bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Equitable Securities Corp. (jointly); Lehman Brothers and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Beane; First Boston Corp.; Union Securities Corp. and Harriman Ripley & Co., Inc. **Proceeds**—About one-half for refunding and remainder for new construction. Expected early in June.

Our Reporter's Report

So. California Edison

A potential negotiated undertaking, Southern California Edison Co. has gone into registration with the Securities and Exchange Commission to cover the sale of 1,000,000 shares of new cumulative preferred stock.

If present intentions are carried through without any hitch this large piece of equity financing will be carried through for the utility by a group headed by big New York and Chicago underwriting firms.

Fitting into its plan for a balanced capital structure, the sale of the preferred would place the issuer in funds to liquidate outstanding bank loans and to finance in part its large construction program.

Two Issues Up for Bids

Next week will bring to market for competitive bids two public utility issues involving a combined total of $53,000,000.

On Monday, American Gas & Electric Co. is slated to open bids for $27,000,000 of serial notes due from 1952 to 1965 inclusive. At the moment it looks as though some five groups will be in the field. Funds will be applied to retirement of $15,162,300 preferred stock and to pay bank loans.

The following day Public Service Electric & Gas Co., will sell $26,000,000 of first and refunding mortgage bonds due in 1980. Four groups have been formed to bid for this offering which will provide for retirement of a similar amount of 3¼% due in 1966.

With the situation generally rather slow interest in the new issue market has been focused on the Phillips Petroleum Co's convertible debentures to which stockholders are privileged to subscribe until the close on May 2.

That issue has been holding the center of the stage and after having moved up close to 105 has since settled back to around 103½. The low interest rate here, 2⅜%, apparently is more than offset by the strong sinking fund provisions and the convertible feature which it carries.

Meanwhile bankers are hoping that the Treasury market soon will be freed of the persistent pressure which has been apparent since the beginning of the year. This, it is observed, would remove at least one element of uncertainty from the current picture.

Underwriters admit that top grades of corporates can be distributed in present circumstances but contend that while, as one of their number puts it, "a marketable market" prevails, there are certain conditions which weigh against sizable operations at the moment.

Chief of these is that current conditions are not conducive to "taking a position" because of the ever present possibility that the government market might pull still further away and thus leave the holder "hanging" for an indefinite period.

Worth Watching

With some savings bankers in this state inclined to favor some broadening out of the field of investment open to these institutions, it will be interesting to note the reaction to the latest development in that direction in Massachusetts.

A bill, signed the other day, now allows banks there to invest in stocks of out-of-state banks, but under stiff restrictions as to eligibility set up by its banking department.

The latter are so stringent that currently only 17 banks around the country qualify as outlets for such funds, and of these, 12 are in New York City. The change becomes effective on July 24 next.

Two With Paul Rudolph

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, CALIF.—Cecil H. Ellis and Ervin D. Macrae have become affiliated with Paul C. Rudolph & Company, 40-D South First Street.

Samuel Franklin Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Olivia Monona has been added to the staff of Samuel B. Franklin & Co., 215 West Seventh Street.

Conference on Economic Union Supports ITO

Louis H. Pink writes House Foreign Relations Committee ITO is a step toward multilateral world trade, essential to prosperity of U. S. and other nations.

In a letter addressed to members of the Foreign Relations Committee of the House of Representatives, Louis H. Pink, Chairman of the Citizens Conference on International Economic Union, urges the approval by Congress of the International Trade Agreement, "as envisioned by the Havana Charter," as a step toward the restoration of multilateral world trade, which, he contends, is the most potent weapon for defeating the disruptive foreign policy of Soviet Russia.

Louis H. Pink

"Experts agree," says Mr. Pink in his letter, "that a considerable expansion in the international exchange of goods and services is essential if the countries of Western Europe are to be able to increase their exports sufficiently to compensate for the loss of invisible income which paid for a large part of their imports before the war. There is also general agreement that the United States cannot maintain its current level of production and income without having export outlets for at least from 5% to 7% of the national product. In many mass-employment industries and in agriculture, employing hundreds of thousands of our workers, foreign markets are required for from 15% to 35% of their output.

"The United States cannot sustain exports at present levels unless there is a steady expansion in world trade. We must buy as well as sell if we are to maintain our present level of economic well-being. Exports are already beginning to decline and jobs will fall off if this trend continues. The increased volume of imports which we are now receiving is beneficial since only by increasing imports can exports be stimulated. People must have dollars to buy our goods and the only way they can get them is by selling their products to us or by gifts."

Charles Fuller Adds

(Special to The Financial Chronicle)

MINNEAPOLIS, MINN.—Charles E. Fuller Company, Northwestern Bank Building, has added Henry E. Keller to their staff.

Joins Blyth Staff

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — Hillyer B. Brown, Jr. has joined the staff of Blyth & Co., Inc., Russ Building.

Sills, Fairman & Harris Group Offers Colonial Acceptance Cl. A Stock

An underwriting group headed by Sills, Fairman & Harris, Inc., on April 25 publicly offered at $5 per share an issue of 164,560 shares of Colonial Acceptance Corp. class A common stock, first series (par value $1 per share—convertible).

The Colonial Acceptance Corp. engages in the finance business, consisting of the making of discount loans, financing the purchase and sale of various types of personal property, chiefly new and used automobiles and household appliances and the making of small loans.

The proceeds of the stock sale will be added to working capital and applied in part to the reduction of outstanding bank loans.

With Kidder, Peabody

(Special to The Financial Chronicle)

BOSTON, MASS.—Matthew J. Harvey is now with Kidder, Peabody & Co., 115 Devonshire Street.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON — During every election year there seems to come a time when the whole course of events suddenly seems to become completely enveloped in politics.

This is a subtle thing. It is alike equally difficult to define or prove. It is difficult to define, because politics is pretty near the full-time livelihood of this capital, and so there seldom is an action which doesn't involve some political consideration.

The time when politics takes full sway is when even less than normally, the merits of legislation are subordinated, and the Washington stage becomes purely a grandstand for vote-getting.

Evanescent as this situation is, it is here. Its existence is almost intuitively recognized by practically all the old hands here in the political game. They accept it for what it is and note that from here on until the adjournment of this session of Congress, the most important yardstick for determining what will or will not happen is what the politicians of both sides think will be the political effects of the stands or actions they take.

* * *

One of the markers which ushered in the purely political era of the 1950 session was the natural gas bill. There is little doubt but that the overwhelming majority of Congress believe that production and gathering of natural gas by independent producers should not be regulated by the Federal Power Commission.

Yet the pure demagogues got across the idea that if production "escaped" regulation, the gas consumers of the big cities of the North and East would pay through the nose. Despite the intense demagogic pressure, a small majority of Congress nevertheless still voted to make it clear that in their opinion the Natural Gas Act of 1938 was not intended to cover production and gathering by independent producers.

This was an issue of rather intense interest to the Congressmen from the Southwest, "Fair Deal" and conservative alike, who fear that regulation of the local gas industry is on the way, to be followed in the course of time only, by regulation of the oil industry.

On the other hand, the merits of the issue have now been entirely subordinated by the friends of the bill as well as the foes. Paradoxical as it may appear outside this political center, most of the friends of the Kerr bill nourish, now, no particular private resentment over the veto of the bill by the President, and do not seem to mourn unduly the bill's failure.

Instead, the private comment you hear on the Hill was that the friends of the natural gas industry blundered by letting the bill come up in this election year and so late in the session. They, with considerable political humility, realize that they have gone afoul of one of the cardinal rules of the prudent political man, which is never to be on the wrong side of a political issue of this type, regardless of merits, where the public can be so easily misled by the demagogues.

It is even being said grudgingly that Harry Truman was a pretty smart fellow to veto the bill and thereby turn the onus back on those Republicans who aided and abetted the "liberals" of the Democratic side to slay this bill—hoping the President instead would let the bill become a law and they would have a little demagogy of their own they could work against Mr. Truman.

It has got so far that after the first day the charge of the "double cross" against Mr. Truman was dropped privately as well as openly. Whether Mr. Truman actually did tell the Oklahoma and Texas boys that he would let the Kerr bill become law if it were presented to him, perhaps will not be known for years, and then only if frustrated big-wigs of the present era agree in their memoirs. In any case, there was probably a constructive if not a technical reversal of the White House attitude.

But the boys are saying that they could hardly blame Mr. Truman for vetoing a bill and thus picking the right side of such a clear issue, meaning clear from the demagogic standpoint.

Incidentally, most of the Southwestern boys take it for granted that the FPC as a result will assert jurisdiction over production and gathering. There is some reason, however, to believe that their pessimism may be unfounded. What gave rise to the Kerr bill and its predecessor proposals was a Supreme Court decision in effect saying that Congress in 1938 had intended production and gathering to be regulated. The Kerr bill was to express the intent of Congress that the Supreme Court, in effect, was wrong. Despite the White House veto, the majority of Congress DID express the opinion that the 1938 act did not apply to production and gathering. The Kerr bill was not affirmative, but negative legislation. It is difficult, despite the White House veto, to see how the Supreme Court hereafter could hold that Congress intended to regulate production and gathering when a majority voted to the contrary.

* * *

Another evidence of the crowning of politics was the decision to cut the FHA interest rate to $4\frac{1}{4}$%. A few months ago it was proposed within the Administration councils to equalize the GI and FHA rate by trimming the FHA and boosting the GI rate. That is now out the window. The FHA rate is trimmed, and that is probably all.

It is asserted within the Administration that there is an abundance of money seeking investment, and that there is a trend to lower mortgage interest rates. It is even reported that some lenders were actually using the $4\frac{1}{4}$ rate prior to the official establishment of this rate as a maximum.

However, the power which put it across was the "liberals" who have been working for some months to cut the FHA rate to make mortgage money still cheaper, for this is expected to be helpful politically. As far as the real lefties around here are concerned, they will not be altogether unhappy if many smaller lenders do not care to play at $4\frac{1}{4}$%, for then the argument one day will be stronger for the defeated cause of 1950—for billions for direct or guaranteed mortgages at even cheaper rates.

There is also some speculation that a lower mortgage rate might have been seen by the Treasury as favoring somewhat its deficit financing, now getting under way.

* * *

Until one knows what the political forces are a month or so from now, he cannot foretell what funds actually will be released to ECA.

Congress has just been playing with the ECA authorization. An authorization bill precedes an actual appropriation. As a rule but not always, it fixes the maximum limit of an appropriation. On general principles, however, it is safer for those Congressmen not firmly committed against ECA, to vote for the higher authorization and then later, if circumstances seem to make it politically wise, vote for a lower appropriation. In this way they can be on both sides of the issue.

What Congress will vote for an appropriation is far from predictable at this stage. Thus, for instance, if the Reds get plenty belligerent between now and say, the middle of June, Congress will appropriate to the full amount authorized. Or, if there is a great deal of worry over disposal of farm surpluses, they might be packaged with ECA into a big appropriation—with even a later increase in the authorization.

On the other hand, if the Reds don't get nasty and some of the other ex-commies from important places get hauled before the courts for perjury, it is conceivable that ECA could be cut badly.

* * *

Many of the Republicans are hopefully expressing the view that the latest batch of proposed tariff reductions will give them a prime political issue of Americans being forced out of work by a mounting flood of imports. Others, however, say that this is wishful thinking until there is a business bust. Then unemployment can be blamed on imports and many other things as well. Nevertheless, the ITO looks like a dead letter for this Congress.

* * *

Although the House Ways and Means committee has been gleefully cutting the excise taxes, this does not foretell enactment of a total tax cut bigger than the maximum of say $1.3 billion that probably could be passed over a veto—as yet.

The House committee is just in the sliding down hill stage. It will slip badly when it comes to offsetting tax increases. It is doubted that these will pull more than $500 million into the Treasury, and the actual amount will probably be nearer $300 million.

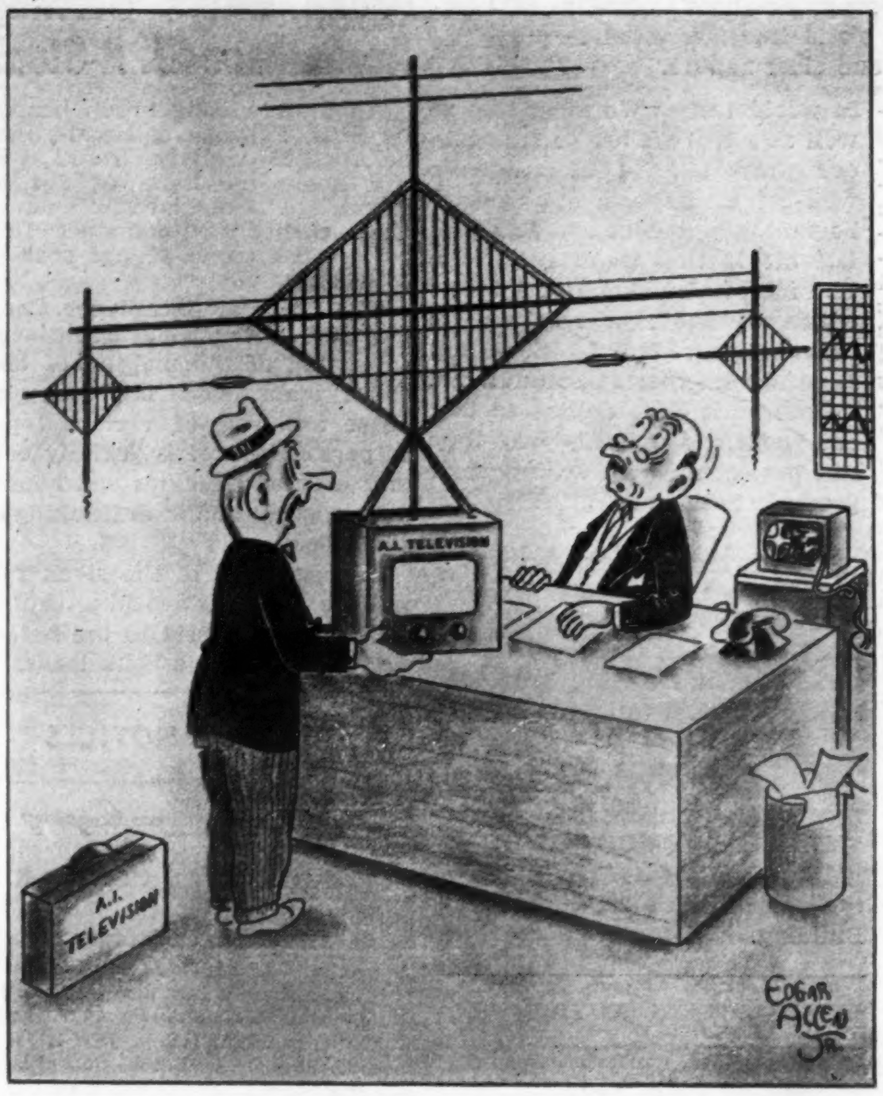
It is still believed that too great a cut in revenues would lead to a sustained veto of the tax cut.

This does not indicate a general attitude of fiscal soundness in Congress, however. The two taxing committees would limit the harm to the Budgetary situation more than the rank and file of Congress. Politically, however, Congress has got its neck all out for some substantial tax cut, so despite the forecast of a greater deficit by the Joint Committee on Internal Revenue than predicted by the President, there will be a tax cut bill.

The worry of Congress over the deficit is real, but the conduct of Congress is akin to that of a person who fears he is becoming an alcoholic. By fits and starts, erratically, the Congress will be economical—as in killing cooperative housing. At other times, fearing the election more, the Congress will be prodigal.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"And with this model you don't need an outside aerial!"

Sidney Fischer Dead

Sidney H. Fischer, of Western Development Corporation, New York City, is dead.

Campbell & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Edward M. Rigel is with Campbell & Company, 111 Northeast Second Avenue.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

TAMPA, FLA.—Hubert S. Copeland is with Waddell & Reed, Inc., of Kansas City, Mo.